

Transcript of Proceedings

UNITED STATES DEPARTMENT OF ENERGY
NATIONAL PETROLEUM COUNCIL

EIGHTY-FIRST MEETING

Washington, D.C.

April 16, 1981

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NATIONAL PETROLEUM COUNCIL

EIGHTY-FIRST MEETING

Executive Chambers I, II and III
The Madison Hotel
Fifteenth and M Streets, N.W.
Washington, D.C.

Thursday,
April 16, 1981

The above-entitled meeting was convened,
pursuant to notice, at 9:00 a.m.

PRESENT: C.H. MURPHY, JR.,
CHAIRMAN

H.J. HAYNES,
VICE CHAIRMAN

PARTICIPANTS:

HONORABLE JAMES B. EDWARDS,
Secretary of Energy

C.C. GARVIN, JR.,
Chairman, Committee on Emergency
Preparedness

ROBERT O. ANDERSON,
Chairman, Committee on Arctic Oil
and Gas Resources

ALTON W. WHITEHOUSE, JR.,
Chairman, Committee on Environmental
Conservation

HON. CARL W. GUIDICE

HON. BARTON R. HOUSE

MARSHALL W. NICHOLS

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P R O C E E D I N G S

CHAIRMAN MURPHY: Ladies and gentlemen, the 81st meeting of the National Petroleum Council will please come to order. You have before you a copy of today's agenda, and the first item of business is to establish for the record the attendance this morning.

Without objection, we will dispense with calling of the roll, and rely on the check-in procedure at the entrance.

Any member or proxies who have not made their presence known with the ladies at the gate, please do so as you depart. I will introduce the people at the head table this morning, all of whom will have roles, to some degree, other than our Co-Chairman and Guest of Honor, who will come last here as he has remarks for us.

To my far left is Al Whitehouse, Chairman of Standard of Ohio, and the Chairman of one of our important study committees, Environmental Conservation, from whom we will hear a report later.

The Honorable Carl W. Guidice, Deputy Assistant Secretary for Fossil Energy on my far right is the gentleman most well-known to our Executive Director, Marshall Nichols.

Next to him is Bart House, Acting Assistant Secretary for Environment and who has served as the

1 Government Co-Chairman on the Emergency Preparedness Com-
2 mittee.

3 Then Cliff Garvin, Chairman of Exxon, and Chair-
4 man of NPC's Committee on Emergency Preparedness, who will
5 have a final report to submit for our consideration this
6 morning.

7 Now we come to the piece de resistance. Our Sec-
8 retary and Government Co-Chairman of the Council was born
9 in South Carolina in 1927. He received a BS degree in
10 1950 from the College of Charleston and a DMD from the
11 University of Louisville.

12 He had active service during World War II, US
13 Maritime Service, beginning as a seaman and being dis-
14 charged as a Deck Officer. He went back to active duty
15 with the United States Navy, and retired from the Navy with
16 the rank of Lieutenant Commander.

17 He became active in southern and, particularly,
18 South Carolina politics and served in the state senate,
19 Chairman of the Republican Committee there, served with
20 distinction as Governor of the state of South Carolina.

21 And during his service as Governor led the
22 governors in consideration of the role of nuclear energy in
23 the fuel spectrum of our nation. He has served as Chairman
24 of the Southern Governors' Conference.

25 In the short time that I have had the privilege

1 of working with the Secretary, I want to say to the Council,
2 to the press and to the public that I am very encouraged
3 that we have a person who already has his sleeves up, who
4 has developed a grasp of the issues, and with whom we can
5 work in a most constructive way.

6 Ladies and gentlemen, Dr. Edwards, Governor
7 Edwards, Secretary Edwards.

8 (Applause)

9 STATEMENT OF HONORABLE JAMES B. EDWARDS, SECRETARY
10 OF ENERGY

11 SECRETARY EDWARDS: Thank you, Mr. Murphy. I
12 appreciate your kind introduction. I am reminded, I saw
13 the sign there, "Honorable". I was reminded that when I
14 first ran for the state senate in South Carolina it was
15 rather shocking after the things you heard said about you
16 in the campaign, all of a sudden you start getting mail to
17 "The Honorable James B. Edwards".

18 My Democratic friend was there, and I commented on
19 that and I said, "Just a few days ago I was an SOB, and here
20 I am 'The Honorable' all of a sudden." My Democratic
21 colleague said, "You are 'The Honorable', but you are
22 still 'The Honorable SOB' as long as you are a Republican."

23 (Laughter)

24 SECRETARY EDWARDS: One of my other friends down
25 there, who is a Democrat, told me a story on several

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1 occasions. I think he had a message he was trying to deli-
2 ver to me, but he tells the story of the old fellow on the
3 interstate highway going down the road in his truck, too
4 slow for conditions.

5 Contrary to the way our Highway Patrol does
6 things, this fellow had been pulled over on the side of
7 the road by a South Carolina Highway Patrolman, and he said,
8 "What's the matter with you, man? You've got a governor
9 on that truck?".

10 He said, "No, sir, that's fertilizer in the back
11 that you smell."

12 (Laughter)

13 SECRETARY EDWARDS: I have to wake you up somehow,
14 but it's a real pleasure to be here this morning, and I
15 appreciate the fine work of the National Petroleum Council,
16 and I welcome your advice and comment as we go forward in
17 developing an effective National Energy Policy.

18 This Council reflects the best that can occur
19 when government, industry and civic leaders all join to-
20 gether in a cooperative effort to meet our country's needs.

21 I understand your Final Report on Emergency
22 Preparedness is to be submitted today, and this is a vitally
23 important area, and I welcome your study. I am sure it
24 will prove helpful to me and others in the Department as
25 we work to develop an effective Emergency Preparedness

1 Policy.

2 I also look forward to receiving interim reports
3 on your two other ongoing studies, that is, your Arctic
4 Oil and Gas Resources Study and the Environmental Conserva-
5 tion Study.

6 Each of these examines major issues and questions
7 that we must answer if we are to move ahead in our efforts
8 to gain national energy security.

9 These studies are typical of the fine work this
10 Council has done on behalf of the petroleum industry in our
11 nation during its 34-year history. No advisory group in
12 Washington has worked harder or more effectively to help
13 solve the nation's energy problems.

14 And I want to thank you and endorse your continued
15 good efforts. President Reagan made a pledge to the Ameri-
16 can people during the campaign. He reminded us that we are
17 a people of ingenuity and initiative, people who, through
18 hard work and determination, extended a few small colonies
19 into a great nation that spanned a continent.

20 A nation that offered progress and prosperity to
21 all who came and worked and persevered. Somehow along the
22 way, however, government grew ever larger, intruding into
23 our free market economy and into our businesses and indus-
24 tries.

25 Initiative was held in check by too many

1 regulations, incentives were eroded by a tax system that
2 seems to penalize success.

3 President Reagan pledged to stop this, to reduce
4 federal spending and to reduce federal taxes and reduce
5 federal rules and regulations. The President committed his
6 Administration to a return to a free-market economy, and
7 let the private sector make the decisions, take the risks
8 and enjoy the growth and success that mark a dynamic and
9 competitive market system.

10 I am privileged to be invited by the President
11 to join his Cabinet, to become a part of his team, to help
12 him carry out this pledge.

13 I am especially proud of the progress we have
14 made to date. At the Department of Energy we have trimmed
15 \$1.4 million or ten percent from the past Administration's
16 FY '81 budget.

17 Next year's proposed DOE budget, we are recommen-
18 ding a \$2.7 million cut, or 16 percent. If you remove the
19 Strategic Petroleum Reserves, the nuclear aspects of the
20 budget, and the defense aspects of the budget, that means
21 we have reduced the balance of the budget by 49 percent.

22 And I think that's a pretty good start for the
23 first 90 days.

24 (Applause)

25 SECRETARY EDWARDS: In defense, the increase

1 is \$2 billion for FY '82, and I think you will all agree
2 that that's absolutely necessary.

3 In addition to these budget actions we have
4 streamlined the organizational structure within the Depart-
5 ment, and we are reducing the reach of its regulatory arm.
6 You may be sure that we will continue to make every effort
7 to do a better job at less cost to the taxpayers and less
8 burden to the industry.

9 One of this Administration's first actions upon
10 taking office was to decontrol oil. The decontrolled pri-
11 ces can seek a natural market level. Industry will have
12 the incentive to seek new and additional resources and now
13 our federal monitoring structuring can be dismantled.

14 This will reduce by 700,000 hours, burden hours,
15 the amount of time industry and government spends each
16 year on government paperwork alone.

17 We have a comprehensive study now in progress con-
18 cerning natural gas deregulation. As you know, this is a
19 very complex issue, and when the study is complete in a
20 few weeks we will have a solid basis on which to make deci-
21 sions about the pace and impact of deregulation of natural
22 gas.

23 We are also moving ahead in other energy areas,
24 in coal, nuclear, synfuels and renewables. We are an
25 energy-rich nation, and we must begin immediately to

1 develop our resources in an expeditious and orderly way.

2 Domestic oil production should increase somewhat
3 during this decade, reversing the decline in experience
4 throughout the seventies. The projections for natural
5 gas production, however, are more uncertain.

6 And that is why we must look to Alaskan develop-
7 ment, to off-shore development, to synfuels, to every area
8 where we have potential energy supply.

9 If there is one thing I have learned since I
10 have been on the Washington scene it is that none of you
11 can tell me how much is out there. If anyone wants to vol-
12 unteer, I want to see you immediately after this session.

13 I found out there is a lot of disagreement in
14 that area, but I guess that's one of the exciting things
15 about this particular area we are working in. As you know,
16 Secretary of Interior Watt and I last week announced the
17 acceleration of the Administration's off-shore oil and gas
18 leasing program.

19 And, specifically, the sale in May of leases in
20 the Santa Maria Basin off California. We must inventory
21 our energy supplies; we must reduce our nation's vulner-
22 ability to foreign oil supply disruptions.

23 We will, of course, do this with all necessary
24 concern for environmental safeguards, and the preservation
25 of America's natural beauty and bounty.

1 Our streams, our forests, our mountains are a
2 part of this legacy to our children, but so are our prosper-
3 ity, peace and national security. We can have all of these.
4 It requires a balance of national needs, and a cooperative
5 spirit among all of our people.

6 Groups like yours contribute enormously to this
7 effort. Again, let me say that I commend you, and I look
8 forward to our continued close cooperation and consultation
9 and I look forward to really getting to know you all and
10 becoming your friend in the weeks and months ahead.

11 Thank you very much and, Mr. Murphy, I will be
12 glad to respond to any questions anyone has at this time.
13 Thank you.

14 (Applause)

15 CHAIRMAN MURPHY: Thank you, Mr. Secretary, and if
16 you will just be comfortable here, the Secretary has offered,
17 as you just heard, to engage in discussion with members of
18 the Council.

19 Who wishes to be first?

20 VOICE: Mr. Secretary, in your report this morning
21 you indicated that the SPR was in your budget, and I commend
22 you for that, and I trust the Administration's policy as
23 originally announced in its budget program will remain
24 intact.

25 We certainly want to give you our support on that

1 score.

2 SECRETARY EDWARDS: Thank you. I feel the way
3 you do. I feel that the Strategic Petroleum Reserve is
4 absolutely essential, just as our military emergency prepar-
5 edness part.

6 It is absolutely essential, and there are games
7 being played over on the Hill with this part of it. I
8 don't care how they fund it, as long as it is filled when
9 it's all over.

10 Whether it is off-budget funding or direct funding
11 or some other grade or method of funding or filling it, and
12 we are working on some of these things that may work out,
13 where we won't have the burden of the necessary cost and
14 still be able to fill the reserve.

15 It is absolutely essential, I feel, to the secur-
16 ity of this nation, and I appreciate your support on it.

17 CHAIRMAN MURPHY: Mr. Secretary, I think you laid
18 it before them in such a way that you have answered most
19 of the questions.

20 SECRETARY EDWARDS: You are not as tough on me as
21 the press is.

22 CHAIRMAN MURPHY: The Secretary has indicated that
23 he would like to stay at least through the Emergency Pre-
24 paredness Committee report, and then someone will be plucking
25 his elbow to get him out.

1 We understand it is because of your schedule.

2 Ladies and gentlemen, years ago in French West Africa I
3 asked an old ivory hunter why he used a 41 caliber rifle,
4 and he gave me a hard stare and said, "Because they don't
5 make none bigger."

6 (Laughter)

7 CHAIRMAN MURPHY: Now when the Chairman of the
8 Appointments Committee and I began to develop our rosters
9 of leadership and membership to carry out the studies that
10 had been requested by the previous Secretary, it seemed to
11 us that a man who led the biggest company in the business,
12 who handles more raw materials, more products than many of
13 us put together, and that within a setting of the world's
14 logistical system was the man, backed by the staff, to under-
15 take the important study that has been requested of the
16 Council.

17 Mr. C.C. Garvin, Chairman of Exxon, and Chairman
18 of our Study Committee in response to the request to look
19 into emergency preparedness in this great nation.

20 Mr. Garvin.

21 STATEMENT OF C.C. GARVIN, JR., CHAIRMAN, COMMITTEE
22 ON EMERGENCY PREPAREDNESS

23 MR. GARVIN: Thank you, Charlie, and good morning,
24 ladies and gentlemen. Charlie, when you approached me
25 about chairing this thing, I did not do the normal thing that

1 I normally do.

2 I would usually consult with my staff. I didn't
3 do it in this case, because I knew they would tell me not
4 to do it. I should have consulted with them.

5 (Laughter)

6 MR. GARVIN: I will ask you to bear with me a bit
7 this morning. This subject is one that I cannot assume that
8 all of you have read this document that we have put in
9 front of you and that has been sent to you.

10 There is much meat in it, and so I propose to make
11 what will probably be a bit more lengthy comments than
12 normal to try to put in focus just what it is that this
13 collective group of people who have worked so hard have
14 tried to accomplish.

15 As Charlie has indicated, our purpose is to con-
16 sider for transmittal to Dr. Edwards the draft report as
17 modified and approved by the Committee on Emergency Prepar-
18 edness at its meeting on March 10th.

19 In developing this proposal, attention has been
20 given to a wide spectrum of views, both within and without
21 the petroleum industry. I cannot say enough for our feeling
22 that these contributions are greatly -- gratefully acknow-
23 ledged.

24 Whether they have been accepted or not, they have
25 been debated. The Committee's proposal outlines a general

1 approach to defending our nation against the consequences
2 of foreign petroleum supply interruptions.

3 It should not be interpreted as a step-by-step
4 cookbook to reducing or eliminating our vulnerability. With
5 the world petroleum situation changing as rapidly as it
6 does, specifics devised today would be of doubtful impor-
7 tance to tomorrow's situation.

8 Thus, the report recognizes the need to establish
9 a continuing system of emergency planning that would allow
10 us to come quickly to grips with problems as they arise.

11 It is clear that ample emergency oil stockpiles
12 are an important means of deterring oil import disruptions
13 and reducing their impact. US energy policy, as we discussed
14 briefly here, should continue to give priority to building
15 publicly-owned stocks in the Strategic Petroleum Reserve, as
16 recommended by the NPC in 1975.

17 Of course, there have been many other studies
18 since then that have confirmed its value as a cost-effective
19 means of cushioning the economic losses from supply dis-
20 ruption.

21 Privately-owned stocks also provide a readily-
22 available buffer against oil import disruptions, but public
23 and private stocks are only one element in responding to
24 oil supply disruptions.

25 They are certainly not the entire answer. Domestic

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1 plans for energy emergency must include other important com-
2 ponents.

3 Primary among these are measures for effective
4 demand restraint, fuel substitution programs and other
5 measures for assuring that the supplies that are available
6 are used in the most efficient and equitable manner.

7 Now the Emergency Petroleum Allocation Act of
8 1973 presently provides our government some of its several
9 authorities to control the price, supply and use of oil in
10 an emergency.

11 As you know, these authorities -- and EPAA will
12 expire on September 30th of this year -- other federal author-
13 ities will continue in effect. Congress and the Executive
14 Branch have already begun to study the policy alternatives
15 for emergency preparedness.

16 A number of key questions are being asked. What
17 degree of importance disruption constitutes a true emergency?
18 What demand and supply management measures should be put
19 on stand-by status for use in an emergency?

20 What criteria should be used for emergency stand-
21 by measures to be triggered into action? Or when should
22 they terminate? What system needs to be in place to assure
23 that government is provided the industry expertise and
24 advice that it may need?

25 All of these are complex and controversial issues.

1 The report that we will be considering today faces up to
2 these questions, and attempts to give some light on answers.
3 Our job here deals with plans our country needs to make to
4 get through in an emergency situation of national proportions.

5 As such, the report recognizes the hardship situa-
6 tions and equity issues which may result from the disruptive
7 effects of major oil import interruptions.

8 However, this study and this discussion are not
9 the proper forum for debating industry issues which relate
10 to protective measures in non-emergency situations, regard-
11 less of the merits of any of those measures.

12 The Committee identified, during the course of the
13 study, the broad objectives which it felt should be met by
14 plans to manage import disruptions. They are quite numer-
15 ous, but they included in this order:

16 Protect national security and foreign policy inter-
17 ests of this country; protect public health and safety;
18 minimize macro-economic losses; restrain disruptive influen-
19 ces in world oil prices; bolster public confidence and en-
20 courage cooperation.

21 Promote efficient petroleum industry operation;
22 minimize intrusions on national long-term goals; and, last,
23 be made as simple as possible to administer. Now it may
24 not be difficult to agree that these are desirable objec-
25 tives.

1 But we came to recognize that in reality no plan
2 can achieve all of these goals. Conflicts are inevitable,
3 and trade-offs will be necessary. There appears today to
4 be widespread acceptance that competitive markets provide
5 the most efficient allocative mechanisms of resources under
6 non-emergency conditions.

7 Further, a great number of people whom we consul-
8 ted with, academicians, consultants and others who provided
9 their views to the Committee, as well as many Committee
10 members themselves expressed strong support for reliance on
11 market mechanisms, even under the most severe import dis-
12 ruptions.

13 They argued that efficient distribution of resour-
14 ces in a crisis is even more urgent than under normal circum-
15 stances.

16 They also pointed to the distortions that had been
17 experienced under the comprehensive oil price and alloca-
18 tion control systems that we have had in the past. However,
19 while the Committee was not unanimous in reaching its recom-
20 mendation, the majority view recognized that neither pure
21 market mechanisms, free market mechanisms nor regulatory
22 mechanisms are perfect in real-world circumstances.

23 And that under emergency conditions either might
24 have serious shortcomings. There was a majority view of
25 the Committee that in an emergency situation economic

1 efficiency recommends a persuasive argument for maximum
2 reliance in the competitive market to the extent that exper-
3 ience suggests it is practical.

4 However, it was also recognized that sudden major
5 interruptions of imported petroleum supplies may, due to the
6 unevenness of the impact, create exceptional hardships for
7 certain regions of the country, and individual consumers
8 and suppliers, which may not be rapidly accommodated by a
9 competitive market adjustment.

10 The primary concern in the most severe disruption
11 scenario studied was not a theoretical solution, but practi-
12 cal considerations of ensuring that all petroleum consumers
13 have a supplier.

14 That limited available supplies are handled in a
15 reasonably efficient, effective and equitable manner, and
16 recognition that all would be likely to suffer some hard-
17 ship and yet still be asked to cooperate with the government
18 for the national good.

19 However, the measures recommended in the report
20 cannot avoid sacrifices in true emergencies. Some companies
21 would be required to share their oil supplies with others
22 more severely affected by the disruption.

23 On the other hand, the disadvantaged companies
24 would not be fully protected. Some companies might, in
25 more severe disruptions, be faced with inoperable plants.

1 All companies would have certain obligations to
2 maintain continuity in supplying customers. Customers would
3 be faced with paying higher prices, and, obviously, doing
4 with less.

5 Certainly, government will need to exercise pru-
6 dence and restraint while under extreme pressure. In a
7 nutshell, the overall approach recommended by the Committee
8 is one of maximum reliance on market mechanisms, coupled
9 with an array of available, flexible and fully constructive
10 emergency stand-by measures so that the Administration will
11 attempt to match and adjust responsible options connected
12 with the ongoing assessment of the severity and nature of
13 the disruption.

14 Of course, discretionary implementation of emer-
15 gency measures could lead to their use in minor disruptions
16 or, worse, even in normal fluctuations of markets.

17 But the Committee felt it would be virtually im-
18 possible to define hard trigger mechanisms which adequately
19 anticipated all the many factors that might appropriately
20 enter into future decisions by the President to activate
21 emergency measures.

22 We have, therefore, proposed the concept of an
23 emergency management process involving both government and
24 the private sector, which requires specific events which
25 neither threatens or causes a sudden disruption in world

1 oil supplies for activation.

2 In addition, before activating emergency procedures,
3 an assessment would be required that such an event would
4 result in severe consequences, such as a threat to national
5 security, significant foreign policy implications or major
6 adverse impacts on the US economy.

7 While the system would be flexible going into an
8 emergency, explicitly designed termination provisions are
9 recommended. So-called "sunset" mechanisms would specify a
10 limited period of time after which a new Presidential or
11 Congressional finding would be required for continuation of
12 any emergency measures put into effect.

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13 This approach, it seems to us, would give the
14 President adequate flexibility in activating emergency plans
15 while providing reasonable assurances that these measures
16 would not be triggered at inappropriate times.

17 Or, as in past experiences, become permanent
18 fixtures, even after the emergency is over. The Department
19 of Energy provided the oil import disruption scenarios that
20 we used in the study.

21 They range in magnitude from a million barrels a
22 day to 4.6 million barrels a day cut-off of oil to this
23 country, and lasting in scope from six to 12 months. We,
24 and the Department, both recognized that it was impossible
25 to capture in a set of paper scenarios all the actual

1 complexities which might exist in future emergencies.

2 However, we did find the scenarios to be a valuable
3 tool in the study. They provided clear points of reference
4 on which to focus discussions, made it possible to quantify
5 the effects of various supply/demand response strategies and
6 to test them for degrees of reasonableness.

7 It is inadequate to discuss the approach of
8 response strategies in the context of terms like small or
9 large disruptions without providing some clearer guidance
10 as to the order of magnitude.

11 Therefore, the study recommendations are organized
12 in terms of strategies of import disruptions to the country
13 of up to approximately one million barrels a day, and two
14 million barrels a day and those larger than approximately
15 two to three million barrels per day.

16 I caution, again, that this matching of disruption
17 magnitude to specific strategies should not be taken too
18 literally, because there are, obviously, many factors in
19 addition to size of the cut-off which would be considered
20 by the Administration when they select their response op-
21 tions.

22 The use of emergency consumption taxes or import
23 fees or coupon rationing is not specifically recommended
24 in the draft report. This is more a matter of the state
25 of existing knowledge of these steps, rather than a

1 deliberate choice to foreclose their use.

2 This draft report acknowledges that consumption
3 taxes, import fees and coupon rationing are potential stand-
4 by mechanisms for use during severe supply disruptions.

5 The Committee suggests that these measures require
6 more study by a variety of institutions and individuals
7 before recommendations could be made with confidence. There
8 was some support within the Committee for crude oil import
9 fees and product excise taxes as they offer the opportunity
10 to reduce demand and curb income transfers to producers
11 through market-oriented mechanisms.

12 Either, however, would likely prove quite sensi-
13 tive politically, if applied at the time of a disruption.
14 When the US consumer already feels impacted by rising world
15 oil prices, there might be considerable difficulty in get-
16 ting Congress to add to that burden.

17 Crude-oil-exporting nations' reactions might also
18 be a source of concern as it relates to import fees. In a
19 disruption, the appropriate level and timing of the tax
20 to balance supply and demand could be very difficult to
21 determine.

22 Frequent changes in level may be needed, as cir-
23 cumstances change. Errors in establishing the tax level
24 could be costly to the economy, and, I suppose, as a very
25 practical matter, one doubts whether Congress would be likely

1 to delegate flexible taxation authority to the President.

2 If the tax was used to focus the shortfall on
3 gasoline, for example, consumption of that produce might
4 be overly restricted while the nation was foregoing less
5 costly conservation in the consumption of other commodities.

6 There is also support expressed in the Committee
7 for coupon rationing, as opinion research findings indicate
8 a public perception that rationing is an equitable means of
9 distributing a shortfall.

10 However, study and practical judgment also indi-
11 cated that rationing is plagued with problems, such as the
12 time required to implement, the potential for errors in
13 coupon distribution, need for extensive security measures,
14 strain on the US banking system which was conceived to be
15 the administrative group that would handle the flow of
16 coupons, opportunity for counterfeiting.

17 And, of course, the very costly and burdensome
18 system to implement. A rationing system would be further
19 complicated if accompanied by price allocation controls as
20 provided for in the current stand-by program, as controls
21 may not allow gasoline supplies to follow the flow of
22 coupons in response to changed driving patterns.

23 Perhaps resulting in the lines at service stations
24 which rationing was advertised as avoiding. For these and
25

1 other reasons, the Committee suggests, as I indicated ear-
2 lier, further study of rationing and tax options to deter-
3 mine whether these measures might be viable alternatives
4 to the system proposed for severe disruption.

5 I would like to take a moment now to explain what
6 some of the factors are that motivated the approach that
7 was selected.

8 While considerable input was received by experts
9 in marketing economics, the subject is certainly not one
10 that can be precisely dealt with, based on hard facts, re-
11 search and analysis.

12 The study is neither totally free-market-oriented
13 nor does it call for government intervention until the need
14 is apparent. We have received comments from those who would
15 like to see the report call for greater reliance on a free
16 market, while there are others in the group who are appalled
17 at the potential exposure to competitive market forces con-
18 templated by this study.

19 However, the study recommendations are based on
20 the judgmental compromise that says that the government's
21 overall strategy for emergency management of oil import
22 disruptions should be to rely to the maximum extent on
23 market mechanisms.

24 But to have available a variety of emergency
25 stand-by options of increasing severity to deal with the

1 problem if it gets out of hand. The demand reduction, fuel
2 switching and supply management, and actions called for in
3 the report, are the types of actions that would be prompted
4 by competitive market forces.

5 For example, if you looked at the report you would
6 note that in disruptions of one to two million barrels per
7 day, after taking all of the recommended steps, the cumula-
8 tive net shortfall ranges from 60 to 100 million barrels,
9 which was left over to be met by the draw-down of private
10 stocks.

11 However, in the case of three to four-million-
12 barrel-a-day cut-off, much more severe, cumulative short-
13 falls of 300 million barrels would be left, after taking
14 all of the steps recommended.

15 This may exceed the total of readily-available
16 private and SPR stocks in the near term, and, thus, supply
17 disruptions in excess of two to three million barrels a
18 day were judged to have the potential to strain the fabric
19 elimination.

20 And in order to alleviate that strain, this report
21 recommends that in cut-offs in excess of two to three
22 million barrels per day, that the government make a Strate-
23 gic Petroleum Reserve crude available to the market, but
24 also have available a limited framework of crude oil
25 distribution and product margin and distribution measures.

1 One mechanism that the report does not recommend
2 is reimposition of domestic crude price control. Adherence
3 to a policy of continued market pricing of domestic crude
4 oil during normal as well as disruptive markets offers a
5 number of advantages.

6 We believe that it maintains the proper signals
7 to consumers and producers, it allows a composite of domestic
8 and imported crude oil prices to clear the market as effi-
9 ciently as possible.

10 It supports agreements with other oil-importing
11 governments to refrain from action which subsidizes crude
12 oil imports. It avoids the pressures for cost equalization
13 systems, like the old entitlements system.

14 It preserves the opportunity for return to normal
15 market conditions in a short time after the cessation of
16 crude oil import disruptions.

17 Even with sunset provisions, experience has shown
18 that domestic crude oil price controls are extremely diffi-
19 cult to eliminate or phase out after disruption. It is all
20 very obvious, too, that to the extent that domestic crude
21 oil prices rise during a disruption, the crude oil windfall
22 excise tax would direct a substantial percentage of the
23 increase to government.

24 I would like to conclude with a description of
25 those stand-by mechanisms that the report suggests government

1 have available for dealing with a more severe supply disrup-
2 tion.

3 The study is offering a controversial recommenda-
4 tion that a stand-by crude oil distribution program be es-
5 tablished in a severe disruption, to assure distribution of
6 available crude oil among domestic refiners on a common
7 national crude run ratio.

8 The pricing basis for the crude oil manufacturers
9 among refiners should not provide unwarranted benefits to
10 buyers or sellers. Such a program would provide for a rea-
11 sonably uniform geographic distribution of available crude
12 oil, and allow each domestic refiner an opportunity to con-
13 tinue serving its customers during the emergency.

14 In order to enhance operational efficiency, no
15 restrictions on exchanging or processing among refiners is
16 recommended.

17 We all know that any mandated crude oil distribu-
18 tion program would require an extensive bureaucracy to moni-
19 tor and maintain the compliance systems necessary for success-
20 ful operation, and would have the potential for building
21 constituencies against its deactivation.

22 And, thus, the implementation of a stand-by crude
23 oil distribution program should be taken only after a clear
24 assessment by government that a major disruption has occurred.
25 We believe the program should include a sunset clause,

1 providing for discontinuation within a set period of time,
2 probably three to six months, or something of that nature,
3 when imports resume.

4 The program should also exclude provisions for
5 distributing initial stocks held by refiners to avoid dis-
6 incentives to private stock-building. Once refiners are
7 provided reasonable access to crude oil during a severe
8 supply disruption, this report assumes that those refiners
9 should continue serving their customers on a reasonably pro-
10 portionate basis.

11 Most jobbers, dealers and large consumers have
12 contracts with their suppliers that would adequately address
13 product distribution concerns in most situations. Even in
14 severe emergencies, many if not most suppliers would assure
15 their customers of continued equitable distribution of
16 available supplies.

17 But some suppliers might take action, such as
18 contract termination or market withdrawal, that would raise
19 public concern. As a hedge against these concerns during
20 a severe supply disruption, the report recommends that
21 government have available the following steps:

22 Require the continuation of product supplier/
23 purchaser relationship for the duration of the disruption.
24 Designate priority uses. Establish a state set-aside pro-
25 gram to provide limited volumes for distribution within each

1 state's discretion to cover local situations.

2 During a severe crude oil supply disruption there
3 is likely to be considerable public concern for downstream,
4 as we say in the industry, windfalls in petroleum manufac-
5 turing, distribution and marketing.

6 This would be most evident immediately following
7 a supply disruption, before crude prices rise sufficiently
8 to clear the market.

9 These potential public concerns are addressed to
10 a simplified stand-by product margin and limitation program.
11 Such a program could be developed to allow refiners and
12 marketers to continue earning adequate margins while easing
13 public pressure for downstream windfall profits tax.

14 The combination of federal emergency measures
15 should also be handy in order to preempt any state or local
16 legislation to the extent that they are in conflict.

17 The Committee, if it recognized anything, recog-
18 nized that the last word can never be written on a complex
19 subject like this. We knew, as we went along, that in
20 view of the controversial issues, the many different posi-
21 tions people would take, that unanimous support is highly
22 unlikely.

23 However, we hope that the report will provide a
24 useful point of reference for the public debate which I
25 have indicated has already begun.

1 I would like to continue this discussion now by
2 turning a little more of the discussion of the report over
3 to two members of my Coordinating Subcommittee: Jim DeKnight,
4 of Shell, was to have discussed the emergency management
5 steps identified in the study.

6 But at the last moment Jim could not make it, and
7 his comments will be given by Ed DiCorcia of Exxon. Ed will
8 then be followed by Terry Redmond, of Standard of Indiana,
9 who will briefly outline the recommendations for industry/
10 government cooperation that are covered in the report.

11 And then Terry, in turn, will be followed again
12 by Ed who will wrap up the presentation by summarizing the
13 emergency supply management recommendations. It seems to
14 me, Charlie, in order to facilitate this discussion within
15 the time set aside this morning, it might be best to let
16 these two gentlemen give their reports.

17 They are fairly brief. And then we can open the
18 floor to questions.

ph #2 end

19 CHAIRMAN MURPHY: Have them come right up.

#3 ph

20 MR. DI CORCIA: Thank you, Cliff. As Cliff men-
21 tioned, Jim DeKnight of Shell had a conflict with last-
22 minute business commitments and could not make these remarks,
23 so I will read his talk.

24 The Shell people were very helpful in the study
25 in doing the first pass of the estimation of the various

1 demand reduction and fuel substitution steps.

2 And they brought those to the subcommittee and
3 there was considerable work done on those, to arrive on
4 what is finally in Chapter 2 of the report. As an approach
5 to the subject of demand reduction, the Committee dealt
6 with forecasts of US energy demands.

7 And what we used were three public forecasts done
8 by Data Resources, EIA Forecasts and S.H. Clark Associates.
9 There are various other forecasts that have been made public
10 by individual oil companies and other groups that differ
11 somewhat from the average of the three that we did use.

12 But we believe for the purposes of the study the
13 forecasts provided a sufficient basis for the judgments
14 that were made.

15 There is an important concept that became clear
16 as we looked at forecasts. If you take the average of the
17 three that we did use in the study for 1985 demand and com-
18 pare that to the forecast in the 1974 National Petroleum
19 Council's study, you will see that the current forecasts for
20 1985 demand is 15.6 million barrels a day of crude oil
21 equivalent.

22 And that is a 25 percent reduction, viewed for
23 1985, than we saw in 1974. Very clearly, a lot of the easy
24 demand reduction potential has already been achieved, and
25 the task of finding demand reduction potential becomes that

1 much more difficult, not only now but then it becomes pro-
2 gressively more difficult as we go forward.

3 Very clearly, too, as we look at the prospect of
4 higher international energy costs this would be a moving
5 target and probably future studies done at some time later
6 on will again look at this and come up with, perhaps, less
7 than the potential for demand reductions in an emergency.

8 The approach that was used in terms of demand
9 savings and fuel substitution potential was literally a
10 shopping list.

11 We put down all the possibilities that we could
12 think of, or that were offered to us, without necessarily
13 identifying those that we particularly favored or did not
14 favor.

15 We tried to get our arms around all of them. In
16 that list there are some things popular among some groups
17 and very unpopular with others. But I think it is fair to
18 say that there is pain in this aspect of the recommendations
19 for everyone.

20 As a matter of fact, there is very little good
21 news in this report anywhere for anyone. We are dealing
22 with difficulty for the nation, and for all of its indiv-
23 iduals.

24 Recognizing that, we attempted to identify at
25 least judgmentally some of the impediments to implementation.

1 There were various motivations that will help look at the
2 way of demand reduction and fuel switching.

3 Certainly, there will be a voluntary motivation
4 and this will be highly dependent on the effectiveness of
5 education of the public, public communication, whether we
6 are able through government, through industry and the pri-
7 vate sector to give a clear description of the problem that
8 the country is facing, should a shortfall develop.

9 There is also a price or cost-induced demand reduc-
10 tion, and we did not specifically quantify that impact, be-
11 cause there will always be uncertainty and debate, especially
12 among economists, about the elasticity of demand for various
13 products.

14 Without question, experience has shown that there
15 is a price/demand elasticity effect, and it will also have
16 an effect on voluntary demand reduction.

17 Finally, there were certain mandatory measures,
18 certainly not popular. However, we recognized that many
19 might be needed in a severe disruption for both demand reduc-
20 tion and fuel switching.

21 An assessment of the various options listed in
22 Chapter 2 of your report, we attempted to make a rough
23 judgmental assessment of the difficulty of implementation,
24 difficulty in the physical and economic sense as well, per-
25 haps, as in the political sense.

1 We identified in the total shopping list which con-
2 tains about 32 items totaling an estimated volume of demand
3 reduction and fuel switching steps totaling 2.3 million
4 barrels a day.

5 In the group that we said was relatively minor dif-
6 ficulty, minor relative to the others, that group added up
7 to 1.6 million barrels a day of steps. In the more moderate
8 difficulty category, those added up to 300,000 barrels a
9 day of steps.

10 And in the major difficulty, there is 300,000 to
11 350,000 barrels a day worth of steps. If Jim was here he
12 would want to emphasize that number of 2.3 million barrels
13 a day is not a number you can plug into any scenario with
14 confidence, because, as Cliff said, none of these paper stu-
15 dies can adequately anticipate all the factors under a real
16 emergency.

17 Especially when you are trying to guess how people
18 will behave under crisis conditions. There is a lot of
19 judgment in there, and the precise answer as to what demand
20 reduction can be implemented cannot be known until the steps
21 have actually been tried and put in place.

22 There is a danger of overestimating what impact
23 these actions can have. But without question we need to face
24 up to the fact that there are some significant reductions in
25 demand that are still possible.

1 And there is availability of fuel switching from
2 oil to more plentiful fuels that still exists, especially
3 if there is forthright action by the government and cooper-
4 ation by the public.

5 In the process of doing our work, there was consid-
6 erable discussion of each of the options within the subcommit-
7 tee and the Committee, and we also talked to a number of end-
8 users, academicians and industry and non-industry associa-
9 tions and got their comments.

10 During the process of the study changes were made
11 in those studies. Those changes were made in the amount of
12 electricity wheeling and electricity import capability. As we
13 talked to the National Electric Reliability Council and the
14 Edison Institute and others, we lowered the numbers we had
15 originally because we were too optimistic, as a good part
16 of this fuel switching had, in fact, already been accomp-
17 lished.

18 Also, the number we had for nuclear power plant
19 licensing and start-up, acceleration, was greatly reduced
20 as we went through a plant-by-plant estimate of what could
21 be switched and what could be saved.

22 There are a number of caveats that Jim would like
23 to mention. These are individual options, and you can
24 look at each one. These are the best judgments of the people
25 who worked on them, their estimates of the potential savings.

1 What will actually be implementable will only be
2 known after some of these steps are tried. Certainly, none
3 of them will be perceived as fair by all, and some will
4 impose unseen costs.

5 We don't suggest that these come free. As an
6 example, reduced speed limits may adversely affect produc-
7 tivity in the economy. Carpooling is on that list, and a
8 very significant number.

9 And here we assume that half the drivers who now
10 drive to work alone might be induced in an emergency with
11 sufficient public education and urging to be induced into
12 carpooling.

13 There is also a significant impact on steps such
14 as banning week-end fuel sales and odd-even plans for auto
15 and light truck fuel sales. And these steps are aimed at
16 reducing leisure or discretionary driving.

17 You can understand why these steps are categorized
18 in the "Major" to "Difficult" implementation area. There is
19 also significant opportunity for emergency oil-to-gas conver-
20 sion, and oil-to-coal, some oil to coal, some gas to coal.

21 That opportunity presents itself primarily in the
22 electricity generation and industrial user area. In con-
23 clusion, we believe that demand management can have an impor-
24 tant impact on mitigating disruptions.

25 And we should not lose sight of that fact. We

1 talk about X barrels a day of gross cut-off in the US.

2 That is a gross number. That is the first impact.

3 However, that net impact on the economy can be significantly
4 reduced and offered by a variety of steps, including demand
5 reduction and fuel substitution.

6 When we talk about percent in shortfalls, let's
7 think in terms of the net shortfall after we take effective
8 steps rather than the gross number, and that's the whole
9 thrust of this report.

10 Demand reduction and fuel substitution are impor-
11 tant. However, we have to concede that the potential for
12 savings is likely to decrease as we move forward in the
13 future, and as consumers change their energy consumption
14 patterns, much as they have in the last seven to eight years.

15 The government effort, perhaps both at the federal
16 and state level, is needed to develop public information,
17 public communications capability, and also to remove ahead
18 of time impediments to fuel-switching capability, which we
19 may want to induce in an emergency.

20 Very importantly, although it can have a signifi-
21 cant impact, demand management alone, just as supply manage-
22 ment alone will not totally buffer this country from the
23 effect of crude oil supply disruptions.

24 The Committee's report suggests that all available
25 tools be used to close the gap between supply and demand to

1 minimize the net shortfall that -- and then that net short-
2 fall is what is left that would have to be met by more
3 draconian measures that might include price increases, stock
4 draw-down, government stock draw-down and other means such
5 as taxes, import fees or rationing may be considered.

6 That concludes Jim DeKnight's report, and follow-
7 ing your roadmap, we will turn it over to Terry Redmond of
8 Standard of Indiana.

9 MR. REDMOND: Thank you, Ed. Good morning, ladies
10 and gentlemen. In his letter asking NPC to conduct a study
11 on emergency preparedness, Deputy Secretary John Sawhill
12 specifically drew attention to the question of the organiza-
13 tion and method of operation of the industry/government
14 relationship during an emergency.

15 In response to this, we looked back at the industry/
16 government relationship in emergencies from World War II up
17 to the present, and let me share with you a short overview
18 of some of that history.

19 During World War II, during that emergency, oil
20 products were extremely essential to the war effort. In
21 May of 1941 the Office of Petroleum Coordinator for National
22 Defense was established.

23 The Secretary of the Interior became that coordin-
24 ator, and a senior oil company official was named as Deputy
25 Coordinator. Shortly thereafter, in 1942, that Office was

1 named the "Petroleum Administration for War", and, the way
2 we do things, we called it PAW. PAW was a government agency,
3 of course, but about 25 percent of its staff was recruited
4 from the oil industry.

5 And that central staff got up to a total of almost
6 1400 people at the height of the World War II emergency. In-
7 deed, several of you in this room worked for PAW during that
8 period.

9 As such, you were full-time government-paid employ-
10 ees; you were not on loan from an oil company. You were not
11 dollar-a-year people. You left your company and went to work
12 for the government.

13 In addition, PAW made extensive use of committees
14 largely comprised of oil industry experts in various func-
15 tional areas. All told a total of almost 3000 oil industry
16 people served with PAW or one of its committees during
17 World War II.

18 During the Korean War, a similar organization was
19 created, and it was called the "Petroleum Administration
20 for Defense" or P-A-D, PAD.

21 Once again, oil industry experts were recruited to
22 serve with PAD, although this time they made up only approxi-
23 mately 25 percent of PAD's executive and technical staff.

24 Beyond the matter of how these organizations were
25 set up and staffed, what was it that PAW and PAD did?

1 Primarily, their tasks were to maximize contribution of the
2 oil industry to the successful prosecution of a war.

3 They did not set prices; they did not run the
4 gasoline rationing system in place during World War II.
5 They did not set production targets. They did not set pol-
6 icy.

7 Rather, they provided technical skills and oil
8 industry operating experience to the job of implementing
9 decisions made by those responsible for running the war.
10 The oil industry experts brought into PAW and PAD were super-
11 vised by government officials..

12 And careful legal safeguards were installed to be
13 sure their work did not run afoul of antitrust laws. And
14 to the best of my knowledge no charges of impropriety were
15 ever issued.

16 Coming along in time, during the 1966 Suez crisis
17 and, again, during the 1967 Six-Day War, there were inter-
18 ruptions in the flow of oil. In both of these instances, the
19 government made use of oil industry committees as an agency
20 for industry cooperation and advice.

21 Neither of these interruptions required a substan-
22 tial government interference with the normal flow of indus-
23 try activities.

24 Coming along again in late 1973, of course, oil
25 supplies were interrupted once again by the Arab oil embargo.

1 In this instance, the government decided to impose a broad
2 regulatory control on the oil industry by building onto the
3 price control system that was already in place under the
4 Cost of Living Council.

5 Reacting, perhaps, to the public attitude of the
6 times, the government did not draw in or use industry exper-
7 tise in handling the Arab oil embargo situation. As a result,
8 perhaps, the complex system of regulations and operating
9 controls imposed on the oil industry were less than optimal.

10 They fitted about as poorly as a set of mail-order
11 false teeth, with lots and lots of pinch points and lots and
12 lots of sore points.

13 It would be redundant to describe for this audience
14 the many counterproductive aspects of those regulations that
15 came into being in late 1973 and early '74. However, we need
16 to keep in mind that America was not at war in 1973.

17 Policy goals were not aimed at mobilizing and
18 redirecting industry effort for wartime purposes. Rather,
19 policy goals were directed towards economic and political
20 objectives, such as maintaining the viability of specific
21 classes of firms, or deciding which customers should get what
22 quantities of what products at a controlled price.

23 Therefore, the use and involvement of industry
24 people in these matters may not have been warranted. Well,
25 our brief look at the past indicates that there is no

1 automatic best way to handle the industry-government relation-
2 ship in future emergencies.

3 To that end, then, our study report recommends a
4 flexible approach, centered around the creation of a high-
5 level advisory group to serve at the request and under the
6 guidance of the Secretary of Energy.

7 This committee would be set up under the Federal
8 Advisory Committee Act. And as such it would necessarily
9 include representatives of a wide spectrum of constituency
10 views.

11 However, its membership would reflect its primary
12 purpose, which is to provide the government with access to
13 the experience and expertise needed to effectively handle a
14 supply emergency.

15 This advisory committee, which we could term a
16 senior advisory committee or executive advisory committee,
17 could provide several critical inputs. First, at the pre-
18 emergency planning stage, this committee would be a logical
19 source of comprehensive understanding of the workings of the
20 petroleum industry.

21 It could advise and counsel on the government's
22 planning proposals for handling an emergency. In addition,
23 through the committee, the government could obtain the
24 assistance of technical advisory groups for the development
25 of specific operational planning procedures.

1 Secondly, the committee could be of immense value
2 in helping to assess an emergency. During the difficult
3 period when a potential disruption is developing, its counsel
4 would provide a useful mechanism in assessing the often con-
5 flicting and fragmentary data that emerges.

6 In this regard, it would supplement the various
7 other situation assessments available to the government.
8 Third, during a supply emergency the committee could eval-
9 uate and provide technical guidance in the response options
10 being considered by the government.

11 It could also advise in the operational implemen-
12 tation of the response options that are chosen. Fourth,
13 the committee could provide information and counsel to the
14 government with respect to the United States' response and
15 the United States' commitments to the IEA.

16 Lastly, during an emergency, the senior advisory
17 committee would serve as a strong link between government
18 and the industry. If required, it could organize and pro-
19 vide professional and technical advisory groups to assist the
20 DOE in its emergency management effort.

21 In developing this recommendation for a cooperative
22 industry-government relationship, we also noted the need
23 for a strong and continuous emergency preparedness effort
24 within the government.

25 We believe that a central government entity,

1 charged with the responsibility for developing an array of
2 response options, is essential.

3 This group need not be large, so much as it needs
4 to be extremely competent. It should report at a high level
5 and have the necessary stature to get the job done. A major
6 supply interruption can be as devastating to the economic and
7 social fabric of this nation as a war.

8 And preparing for one should be as thorough as
9 preparation for the other. Ladies and gentlemen, that con-
10 cludes my summary of the NPC's recommended response to the
11 question of industry-government relationships and emergency
12 planning.

13 The full report before you deals much more exten-
14 sively with this matter. With that, I would ask Ed DiCorcia
15 to come back and he will add some concluding remarks on
16 emergency supply management.

17 MR. DI CORCIA: Thank you, Terry.

18 The emergency supply management course covers areas
19 such as use of security stocks, public and private inven-
20 tories, emergency oil and gas production, emergency refining
21 operations and emergency logistics operations.

22 With regard to the SPR, the current plan, as you
23 know, calls for the continued development of the SPR up to
24 an ultimate capacity of 750 to one billion barrels by 1990.
25 The report recommends that the government maintain or

1 accelerate this schedule as is prudently feasible.

2 This report also recognizes the specific problem
3 of oil acquisition, and suggests that the government should
4 continue to secure oil for the Reserve, using a variety of
5 market-oriented techniques when supplies are available in
6 the market.

7 This report suggests that diversion of SPR fill,
8 that is, oil currently under contract to be delivered to the
9 SPR, that that be considered for diversion for current con-
10 sumption, and some of the smaller shortfall scenarios that
11 were studied and draw-down of SPR reserves already in place
12 should be considered in the more severe shortfalls.

13 But to the extent that sufficient reserves are
14 retained for national security, health and safety needs,
15 should the emergency worsen or perpetuate.

16 Judgmentally, we said that number might be something
17 like 200 million barrels. The decision to draw down the
18 SPR should be made at a high level in the Administration,
19 after careful assessment of the trend of the emergency.

20 Discontinuation of the SPR draw-down should be
21 automatic, unless extended by an Executive finding. As a
22 matter of methodology, distribution of SPR stocks, if it is
23 accompanied at that moment or preceded by a national crude-
24 sharing program, then to assure fair and equitable access
25 by refiners it is recommended that SPR stocks be distributed

1 in the same manner as any crude seller would be under the
2 program.

3 In the event that SPR stock should be distributed
4 when there is no national crude-sharing program in effect,
5 then a bid system is recommended to assure efficient utili-
6 zation of limited stocks and avoidance of potential subsidies
7 and abuses.

8 With regard to privately-held inventories, the
9 report recognizes that the existing inventory system in the
10 United States was designed to move large quantities of oil
11 over large distances, and was not designed to hold oil in
12 static situations.

13 So the mandating of private inventories to become
14 security stocks, without allowing time for facilities to
15 be built, could have a disruptive effect on the operation
16 of the petroleum distribution system.

17 To encourage private stock-building, the report
18 suggests that government should avoid disincentives to sup-
19 pliers and consumers. Such disincentives would include the
20 perceived threat of future price and allocation mechanisms
21 on inventories in the event of a supply disruption.

22 With regard to emergency oil disruption, the study
23 indicates there could be some additional oil available if
24 called upon in an emergency.

25 Through a survey of producers, the Committee

1 identified approximately 325,000 barrels a day of potential
2 in '81, declining to about 140,000 barrels a day in '85,
3 and that number is dependent upon the success of future
4 discoveries.

5 Potential supply at these levels of emergency
6 production would be contingent upon timely approval by regu-
7 latory agencies to allow increased production over present
8 legal allowables.

9 And, in some cases, temporary relaxation of con-
10 servation and environmental rules, and until permanent facil-
11 ities can be provided. With regard to emergency gas produc-
12 tion, in the demand reduction study I spoke about earlier
13 there was identified additional gas demands from oil-to-gas
14 capability of some 400,000 barrels a day of oil equivalent.

15 This was primarily in the industrial electrical
16 utility sectors. The Committee assessed that these gas de-
17 mands can be achieved, and as much as an additional two to
18 300,000 barrels a day of oil equivalent could be made avail-
19 able, depending on the season of the year and if there was
20 sufficient lead time to effect increased production.

21 The winter gas surge capacity would require in-
22 creased withdrawal from underground storage reservoirs,
23 since there is a peak of gas production normally in the win-
24 ter.

25 If there was severe or extended cold weather

1 occurring during an emergency disruption, that might pre-
2 clude maximum fuel switching identified in the study, without
3 some compromise of gas sales in other sectors of the country.

4 Exceptions under the Fuel Use Act would probably
5 be required to achieve the fuel substitution steps identified.
6 With regard to emergency refining operations, here we lean
7 very heavily on a prior NPC study, refiner flexibility.

8 In a period of severe shortfall, the amount of
9 excess capacity that would exist just would suggest that
10 the US refiners appear to have adequate processing flexibil-
11 ity to meet a range of what might be desired emergency pro-
12 duct slates for the various scenarios studied.

13 Some lead time might be required to fully accom-
14 modate the necessary changes for maximum flexibility. In
15 a severe oil curtailment, of course, it would make -- sense
16 for the whole US refining industry to be operating in some-
17 thing like 55 percent of capacity.

18 So it would probably be desirable, and maybe nec-
19 essary for there to be selective curtailment of the units,
20 so that other units could be operated at a higher rate of
21 utilization and, thereby, increasing efficiency and saving
22 energy.

23 That is why the report emphasizes that emergency
24 management plans should not restrict the ability of refiners
25 to make commercial arrangements such as having their crude

1 processed so that some units can be shut down and other
2 crudes can operate at a higher level of efficiency.

3 Efforts by ASTM to develop stand-by emergency spec-
4 ifications for products such as diesel, jet burner fuels
5 were encouraged and some approaches were made to the ASTM to
6 further improve refining flexibility transition during an
7 emergency.

8 The report details consideration that should be
9 given by government to regulatory procedures, relaxation of
10 sulfur content specifications during an emergency, so that
11 refiners can meet quality requirements of other products by
12 minimizing gasoline consumption.

13 You realize when gasoline reduction is minimized
14 that reformer rates in hydrogen generation will be reduced
15 and there might not be sufficient hydrogen to do all the
16 sulfurization that the environmental specs require.

17 Some waivers may be needed, and there needs to be
18 a reasonable response time on those waivers in order that
19 customer product demands can be met more effectively. Relax-
20 ation of restrictions in an emergency of the use of octane
21 additives were also identified, and would allow for increased
22 energy savings by refiners.

23 With regard to emergency logistic plans, the study
24 analyzed the crude and product transportation and storage
25 segments, and here we lean heavier on an earlier NPC study on

1 the storage and transportation capability.

2 The story again is much the same. In an environ-
3 ment of extreme spare capacity, it appears there is lots
4 of flexibility. The major logistics constraint identified
5 as the movement of crude from PAD 5 to PADs 1 and 3.

6 In the event of a disruption of imports, depending
7 on what is curtailed, it would appear that a redistribution
8 of available supplies from PAD 5 would probably be necessary,
9 and limitations in transportation capability, including
10 limited capacity of the Panama Canal and restrictions on the
11 use of subsidized and foreign-flag tankers could restrain
12 movements that would be required.

13 These constraints could occur as early as 1982 or
14 '83, even due to potential changes in normal supply and
15 demand patterns.

16 However, there are a number of commercial pipeline
17 ventures under way in the development stage now, which have
18 -- which are designed to relieve those constraints. Generally,
19 the other crude oil logistic systems throughout the US appear
20 to be adequate for all of the disruption cases studied.

21 With regard to product distribution, no significant
22 bottlenecks were identified in the US product logistic system,
23 and there appears to be adequate flexibility to handle the
24 redistribution of supply patterns resulting from disruptions
25 cases that we studied.

1 Cliff, I would just like to take this one oppor-
2 tunity before we turn the report back over to the Council
3 for debate. I wanted to mention to the Council members that
4 the Subcommittee and the Committee got very excellent help
5 and support from the NPC staff.

6 I wanted to mention that, especially the help that
7 we got from John Guy and Mrs. Pam Dunning and Marshall Nichols
8 and Mrs. Cayforth. We are very grateful and thank you.

#3 end ph 9 MR. GARVIN: Thank you, Ed and thank you, Terry,
10 and that completes the formal presentation, Mr. Chairman. I
11 would like to acknowledge, too, the outstanding contribution
12 of so many people to the Committee.

13 We do have to note the work done by the Subcommit-
14 tee under Ed, and the work done by the Department of Energy
15 under Bart House and his staff.

16 We could not have gotten to where we are without
17 the kinds of efforts they put out. Speaking for the Commit-
18 tee, we are all indebted to all of the people who did all
19 those kinds of tasks in putting this thing together.

20 I think in conclusion that the full Committee, on
21 balance, believes that the proposed report is responsive to
22 the Secretary's request, and the Committee recommends that
23 it be approved by the National Petroleum Council subject to
24 any final editing that we probably will still have to do.

25 And I so move in that case, Mr. Chairman.

1 CHAIRMAN MURPHY: Does the Chair hear a second?

2 MR. COLLINS: Second.

3 CHAIRMAN MURPHY: Ladies and gentlemen, the ques-
4 tion before us is, one, whether to accept the report as
5 submitted; two, whether to accept the report with modifica-
6 tions; or, three, whether to reject the report of the Commit-
7 tee.

8 This is a matter to be decided by the members.
9 Observers here who represent absent members will be recog-
10 nized for the purpose of a one-time statement of your
11 principal's point of view, if you wish to make it.

12 Members of the Subcommittee and the Task Group
13 are here. You have heard two of them, and they are here to
14 answer questions of the members, but not for the purpose of
15 engaging in advocacy or debate.

16 Comments from the public will be received as the
17 last item on the agenda, and after adjournment we will be
18 available to the press.

19 The subject is open to discussion. Yes, sir?

20 MR. COLLINS: President Goss, of the Oil Chemical
21 and Atomic Workers was unable to be here, and he asked me
22 to read a very short statement. "I regret being unable to
23 attend this meeting --"

24 CHAIRMAN MURPHY: Would you stand so you can be
25 heard, sir? Or come to the mike, if you wish.

1 MR. COLLINS: Thank you very much. Robert Goss'
2 statement follows: "I regret being unable to attend this
3 meeting of the National Petroleum Council and to participate
4 directly in the discussion of the important document on
5 Emergency Preparedness.

6 "As my letter and accompanying documents to
7 Mr. Murphy were sent last week to all Council members, I
8 shall be brief. The document called for competitive market
9 with recycling of windfall profit tax receipts to the public.

10 "I have three questions which I think should be
11 answered before the draft report is accepted by the Council.
12 One, How high would market prices for oil products be in
13 the substantial shortfall of crude oil?

14 "My staff informs me that the price could be as
15 high as \$14 per gallon for gasoline. Two, What information
16 does the Committee have about the practical mechanics of
17 the recycling of tax receipts in case of a severe shortage?

18 "It seems obvious that any delay in the recycling
19 process could lead to economic disaster. Three, Has the
20 Committee pondered over the possible political consequences
21 to the oil industry if the NPC proposal were adopted and
22 then floundered in an oil disruption?

23 "Under a market regime, the oil industry would
24 be blamed. In the absence of satisfactory answers to
25 these questions, I think the draft report should be

1 rejected." Thank you, Mr. Chairman.

2 CHAIRMAN MURPHY: Thank you. Mr. Garvin, as the
3 proponent of the report, do you wish to answer this? If you
4 wish, you might call on members of your task force to answer
5 in any detail.

6 MR. GARVIN: Frank raised three pretty good ques-
7 tions, and they were questions raised in the Committee. The
8 question of how high can prices go. I honestly don't know
9 the answer.

10 Many economists have done a lot of work on this
11 subject, and the elasticity of demand in sudden situations
12 is difficult to come by. I don't hold any belief that the
13 price would go as high as \$14 a gallon, it seems to me that
14 would not happen.

15 My guess is the flexibility given to the govern-
16 ment, if those kinds of prices were to show up, immediately
17 they would take steps beyond which are outlined in this
18 report to do something about it.

19 I just don't think that that would be the kind of
20 answer, that's a matter of judgment. On the mechanics of
21 tax receipts, I am, again, less of an expert on this subject.
22 Some of us in the past have recommended that there be an
23 excise tax put on gasoline.

24 And the controversy over the issue not only if
25 you put an excise tax on it, but how the government would

1 handle the proceeds was one that called for an awful lot of
2 debate and controversy.

3 We are recommending in this report that if excise
4 taxes are to be considered, that appropriate consideration
5 be given by the government group to what is a proper recycling.

6 I suspect you could get as many opinions in this
7 room as there are people as to what those proceeds ought to
8 be used for. In general, if such a tax were to be put in
9 or in case of the windfall profits tax, which is actually --
10 which we felt should be targeted back to specific areas of
11 need and demand.

12 I think Frank has a good point. There probably
13 would be delay in this kind of thing, but that's the way
14 our system works.

15 On political consequences to the petroleum indus-
16 try if the thing fails, I don't know. I suspect no matter
17 what kind of plan we recommend here, whether we have gone
18 the route of some of the folks who thought this was not the
19 right way and gone some other way, my guess is that the
20 petroleum industry will suffer the consequences of the public
21 reaction.

22 And I don't think that that will be good under any
23 circumstances. Nobody in the public likes to be short on
24 their oil supplies, and neither do they like to pay higher
25 prices.

1 I am not happy with that conclusion, but I suspect
2 that that is the situation we will have to deal with. It is
3 true that the tenor of this report is trying to plead for
4 reasoned judgment on practical approaches to the problem.

5 It is designed to give, hopefully, a group of
6 very capable and adequate government administrators a whole
7 lot of flexibility about how they might deal with this thing.

8 It also deals with some principles that we think
9 have been learned by experience. All of the problems
10 Mr. Goss and Frank have recognized I think will exist. I
11 don't think they are the kinds of things that will keep us
12 from moving ahead with it.

13 CHAIRMAN MURPHY: Thank you, Mr. Garvin. Yesterday
14 a member, Mr. Yancey, informed me that he wished to submit
15 some minority views, but I suppose he wants them to become
16 majority views.

17 We made an attempt to have his documentation
18 available, and I'm not sure that it got to the members early
19 on. Did it? Mr. Yancey, do you wish to be recognized?

20 MR. YANCEY: Yes, Mr. Chairman. First, I want to
21 say that my staff and myself have gone through this report
22 completely. The staff has provided us with interim reports,
23 and the reports you now have have been improved, in our
24 opinion, substantially from where it was.

25 The overview that was added is a big, new addition

1 that I think was well worth it. I do have serious problems
2 with the report, and would like to submit a minority view.

3 The minority view that we have submitted is in
4 your packet, and any one of you members that wish to be added
5 to the list of minority report are welcome to do so. All
6 you have to do is advise Marshall.

7 The shortcomings I have with the report are there
8 are about four main issues. One is the so-called free,
9 competitive market. The free market was changed to competi-
10 tive market, and no one can quarrel with a competitive market
11 in normal times.

12 I want to remind all of you that we don't live in
13 that world today, and it's not a free market. International
14 crude is a political tool, and not a free market situation.
15 And it can be triggered by just about any whim of imagina-
16 tion.

17 There is no free market, and as far as I'm con-
18 cerned, I don't think there has been a free market in the
19 oil business for 40 years. Number 2 is the trigger for an
20 allocation program.

21 I, for one, don't like an allocation program any
22 more than you do, and the IPAA has been criticized, and I
23 think rightly so. But let me remind you that the IPAA per-
24 formed a masterful task at its inception, until so many
25 biased and other favorite things were put into it.

1 It was set up for an emergency, and the emergency
2 disappeared, but the Act continued. And that's the reason
3 for the many things, and all of us in this room, I think,
4 agree that it ought to be discontinued.

5 But not at its original inception. It did perform
6 the job during the Arab embargo, and did it masterfully. It
7 allocated crude oil so everyone had the same amount of crude.
8 It disputed the price situation, and it was good for the
9 whole United States.

10 In looking at this report, to suggest not trigger-
11 ing any supply allocation before there is a shortfall of
12 two million barrels a day, made into three million barrels a
13 day is a short-sighted viewpoint.

14 We all know that at the first Arab embargo there
15 was less than a million barrels a day that was interrupted,
16 less than a million. We are talking about in this report
17 not triggering or even starting to trigger an allocation
18 program until there is two million barrels a day.

19 I want to remind you that the United States is
20 part of the international sharing agreement that is shared
21 with 21 countries. Their trigger is seven percent. I can't
22 for the life of me see how we can get out of step with the
23 rest of the world if the trigger for the International Energy
24 Agency is seven percent.

25 And this trigger, at two, is something like 16 or

1 17 percent and three million barrels a day is over 20 per-
2 cent.

3 How we can get out of step with the rest of the
4 world when they call on us to share, not having an emergency
5 because the shortfall is less than two million barrels per
6 day, but when the shortfall is seven percent, any other
7 country, I don't understand it.

8 Number 3 is inventories. I remind you that during
9 the Iranian-Iraqi war there was a shortage, and the price
10 of crude oil went up almost double. Those of us and those
11 companies that did not have crude in the marketplace chased
12 the price up, and OPEC followed, as they have in the past.

13 It's historic, and it has been plotted out that
14 any time spot crude becomes \$40 a barrel, the posted price
15 of crude follows within three to six months.

16 And that has been documented by a lot of folks.
17 And I don't think there is any argument about it. The inven-
18 tory situation, mind you, during the Iranian-Iraqi war, the
19 inventory of many or most of the major oil companies actually
20 increased, while those of us in the market buying crude oil
21 in the market for \$40 a barrel and \$42.

22 What I am saying is that inventories are fine, but
23 there should be some mechanism in this report to require the
24 draw-down of those inventories by all, not the building of
25 inventories so that if there is a shortage now it may get

1 worse.

2 I am highly in favor of an advisory committee. I
3 think it's good, and I think it must represent all of the
4 industry in all segments. But I think it must represent all
5 the constituencies.

6 However, I must remind you that many of you in this
7 room have sat in emergency meetings with the Secretary and
8 even the President, and the first thing we are reminded of
9 when we go to those meetings by lawyers of the Antitrust
10 Department is what we can say.

11 I can remember a Chairman of the Board of a major
12 oil company saying, "What are we doing here? We can't talk
13 about anything."

14 What I am saying is if you have an advisory commit-
15 tee, and in this report it says that you do not need any
16 change in antitrust laws, I question that because I have been
17 in these meetings in the past.

18 The laws have changed since World War II and the
19 Korean war, unfortunately. If industry had been managing
20 some of the emergencies we have had in the past, I think we
21 would have done a hell of a lot better job.

22 All I am saying is unless the antitrust laws are
23 changed or immunity granted, I don't think the committee
24 will have the freedom to react to whatever emergency there
25 might be.

1 As I said, Mr. Chairman, I hate to take a minority
2 view in what I think to be a masterful job that was done
3 quickly and done thoroughly. This report, which probably
4 will be approved, should be analyzed by all of you.

5 The shortfall that has not been covered, only by
6 suggestion of carpooling and fuel switching and these sort
7 of things -- they include the use of strategic storage fuel.

8 I can assure you, if strategic storage crude is
9 going in when there is an emergency, they won't be going in
10 long because it won't be available to buy. At the rate we
11 are filling strategic storage, it will take 25 years, unfor-
12 tunately, unless it gets speeded up some.

13 That's my report.

14 CHAIRMAN MURPHY: Mr. Yancey, your views are not
15 only accepted, but they are solicited, and we thank you for
16 them. Mr. Garvin, do you wish to respond?

17 MR. GARVIN: I don't want to get into debate with
18 my good friend, Robert, about all these points. But there
19 are two or three of them that he made that I feel constrained
20 to say something about.

21 I am not taking them necessarily in order. The
22 last point Bob made about recommendations in here in terms
23 of antitrust, I happen to share his view. The Committee,
24 when it debated this, if you look at the very narrow role
25 they specified for the advisory group, the conclusion of

1 most of the attorneys consulted was that the present anti-
2 trust was adequate.

3 None of us, though, in a practical sense, are too
4 happy. It is my hope and belief that this will be looked at,
5 and I suspect we all seek more recognition in the antitrust
6 field in order to be an adequate provider of the information
7 and services that were spelled out.

8 So I happen to agree with him, even though the
9 report doesn't go that far. One of the basic issues I take
10 with Robert, I cringe at the suggestion. I know how the
11 international oil market is set, too.

12 To tell me there is no competition going on in
13 that market today, I have very much difficulty with that.
14 I guess I have difficulty with the use of his words, that we
15 have not had one for 40 years.

16 I would have trouble seeing the NPC enforce a state-
17 ment that states blatantly, as Robert says, that there is
18 no competitive market.

19 I have trouble with that. On the question of the IEA,
20 let's not take these things too seriously in this sense: the
21 IEA is an international organization, set up some years ago.
22 The United States is a participating member, and it set some
23 rules back in 1974.

24 I believe it did set up some kind of trigger mech-
25 anism that calls for seven percent. They have approached

1 seven percent any number of times and not triggered that
2 thing. It's not effective in the sense of that mechanism.

3 It is not incumbent upon the President of the Uni-
4 ted States to honor that trigger. He is a member; he has
5 to find in the case of the United States that there is good
6 reason to go along and support that.

7 I would hope that we are not getting tied up in
8 words. My understanding of a trigger, they are looking to
9 amend that thing. And there is a study under way in the IEA
10 to find a better and different trigger mechanism.

11 It needs to recognize the amount of conservation
12 that has taken place in this world, and the number is no
13 longer effective. Again, the idea of flexibility in the
14 system is what we are talking about.

15 The only other point I think that was brought out
16 in our talks, Bob was right in saying that theoretically we
17 are saying, "Don't do anything until you get this two to
18 three million barrels."

19 I would like to remind you again that he is dealing
20 with a gross number. The study is full of suggestions and
21 recommendations to the Administrator to take steps to reduce
22 that two to three million barrels a day.

23 And there are many steps, at least in the short
24 term, that are available to him to reduce that shortage sub-
25 stantially. You should be talking in terms of the net

1 shortage, and the net shortage in the early years is not the
2 two to three million barrels.

3 Again, it is a question of how you see these things
4 or the emphasis. The idea is to build a maximum amount of
5 flexibility for the Administrator, and yet to talk about
6 methods that have been proven.

7 That is the basic difference I see between Bob and
8 ourselves.

9 CHAIRMAN MURPHY: Thank you. Ladies and gentlemen,
10 the first person recognized during the discussion period
11 read a statement by Mr. Goss, a member, posing several ques-
12 tions and recommending rejection of the report, if those
13 questions were not satisfactorily answered.

14 I will now recognize any member, if such there be,
15 who wishes to speak in favor of rejection of the report.

16 (No response)

17 CHAIRMAN MURPHY: There being none, we will proceed
18 to consideration of modification of the report. I will now
19 recognize any member who wishes to speak in favor of
20 Mr. Yancey's recommendation for modification of the report.

21 Let's consider the procedures here. If you wish
22 to amend the report, a motion should be offered for amendment
23 and that will be acted on before we act on the report itself.

24 If you wish to have a supplemental report or a
25 minority report accepted at the end that would be acted on

1 separately after acceptance or rejection of the full report;
2 Mr. Rosapepe?

3 MR. ROSAPEPE: A point of inquiry, Mr. Chairman.
4 My understanding is that what Mr. Yancey is proposing is
5 the second vehicle. Mr. Yancey was proposing a set of minor-
6 ity views that would be appended to the report if approved.

7 I would like to know if my understanding is cor-
8 rect.

9 CHAIRMAN MURPHY: I read Mr. Yancey's paper, and
10 it is as thorough as time would permit. I think the first
11 part of it really is stating a case. Is it true, Bob, that
12 down towards the end you give the specific recommendations?

13 I am going to ask Mr. Yancey to return to explain
14 to the Council exactly what it is that he is proposing.

15 MR. YANCEY: First, I would like to say this: in
16 your report, Appendix F, it says, "Such a program will only
17 be contemplated in the context of a national emergency due
18 to sudden cut-off of two to three million barrels per day."

19 That says in the appendix that you don't trigger
20 anything, and then you say it's flexible. I say in this
21 report that trigger says you don't trigger anything until
22 two million barrels a day.

23 MR. GARVIN: The tenor of the thing is flexibility.

24 MR. YANCEY: I understand that, but the back of
25 the report says you don't trigger; you take it out.

1 CHAIRMAN MURPHY: We will get a question of fact
2 answered here.

3 MR. DI CORCIA: Mr. Yancey, as we conceded on the
4 ninth of April, Appendix F, which is 400 pages back in the
5 report, a revision was not made that should have been made.
6 That would get that sentence and Appendix F consistent with
7 everything in the overview in Chapter 1.

8 That word should be changed to "normally considered"
9 not "only considered".

10 MR. YANCEY: I did not know --

11 MR. GARVIN: I should have made the point.

12 MR. YANCEY: I did not know you had done that.

13 MR. DI CORCIA: That was an editorial change that
14 would be made.

15 MR. YANCEY: Mr. Murphy, I indicated that I would
16 like to have this minority report a part of, as was done in
17 other Council reports. One other one that I read recently,
18 that was a minority report, and that was attached to the
19 report, because I think it is important to get these view-
20 points in.

21 But there are some people on the Committee who
22 felt very strongly that some of these issues should be inclu-
23 ded and not just glossed over as the report does and not
24 address itself to the specific issues.

25 CHAIRMAN MURPHY: Mr. Yancey is asking that this be

1 included in the report itself. I have reviewed the prece-
2 dents and procedures, and the most recent precedent being
3 the Committee on Transportation, chaired by Mr. Sellers.

4 There was a minority view included in the body of
5 the report, and that was a view that was considered by the
6 Committee in plenary session and adopted by the Committee
7 itself and the Committee report came before the Council in
8 that form.

9 Today's situation is unlike that precedent in that
10 the Committee has not considered, or at least has not acted
11 upon the question of whether it would have a minority report.

12 It is not proper for the Committee to go back into
13 session here so this matter is before the Council. We can
14 have a minority report in the report of the Council, but we
15 have passed the moment where we could have a minority report
16 in the Committee itself.

17 I suppose, Mr. Yancey, it would be in order for
18 you to move as an amendment that the Council accept -- adopt
19 your minority views as an appendix to the Council's report
20 to the Secretary.

21 MR. YANCEY: I so move.

22 CHAIRMAN MURPHY: Is there a second?

23 MR. ROSAPEPE: Second, Mr. Chairman.

24 CHAIRMAN MURPHY: We have a motion to amend, and
25 we will vote on the motion to amend before acting.

1 Mr. Rosapepe?

2 MR. ROSAPEPE: I would like to speak to the motion
3 if I could, Mr. Chairman.

4 CHAIRMAN MURPHY: The matter before the house now
5 is a motion to amend, and it is subject to plenary discus-
6 sion. Mr. Rosapepe?

7 MR. ROSAPEPE: Where would you like me to go --
8 in general?

9 (Laughter)

10 MR. ROSAPEPE: Mr. Chairman and members of the
11 Council, I would like to speak in favor of Mr. Yancey's
12 motion. At the appropriate time I would also like to speak
13 to the report itself, but I will not on this occasion.

14 As members of this Council know, as Mr. Sellers
15 knows, probably better than anyone else, I am a member of
16 the Council, a consumer member of the Council, and one who
17 is not shy about expressing dissent from the views of those
18 in the industry and outside of the industry.

19 I think also as members of the Committee particular-
20 ly know, I voted to approve and report out of the Committee
21 the full report. There were other members of the Committee
22 who shared many of my views who voted the other way.

23 The reason I support this motion, Mr. Chairman, is
24 because I believe that while Mr. DiCorcia and Mr. Garvin
25 say it's not the last word, that's correct. It is the best

1 word to date, and it makes an enormous contribution in this
2 area.

3 But there are clearly the areas -- I believe there
4 are areas that Mr. Goss of the Oil Workers and Atomic Work-
5 ers and Mr. Yancey, with Ashland, raise. Those are problems
6 with the report.

7 They are important issues. They are not the only
8 issues, but they are ones of serious concern, I believe, to
9 the consuming public as well as members of the industry.

10 For that reason, I intend, while voting to approve
11 the report and support the report, to associate myself with
12 the minority views that Mr. Yancey has submitted, and that I
13 believe the Oil, Chemical and Atomic Workers and other
14 members of the Council intend to associate themselves with.

15 I think the issues he raises are reasonable ones,
16 and I think they are ones that have fairly widespread -- ones
17 of fairly widespread concern.

18 And, therefore, are appropriate to be included as
19 a minority report appended to this document. I frankly be-
20 lieve, even if you don't agree with those views, and I know
21 many people here do not agree with those views, that it would
22 be counterproductive in the extreme for the Council to take
23 the position that those views will not be appended to the
24 report.

25 Not appending to the report will not make any secret

1 of the fact that there is some disagreement in these areas.
2 I believe it would be the kind of step that, frankly,
3 Mr. Garvin in the Committee and Mr. DiCorcia in the Subcom-
4 mittee showed that they have an openness and willingness to
5 let other views in and be heard, and anticipate and acknow-
6 ledge where there is disagreement.

7 As far as my views on Mr. Yancey's report itself,
8 I agree and share his concerns in almost every area, but
9 typically I don't agree with everything he said.

10 That is, specifically, in the area of antitrust
11 immunity. I was one of those in the Committee who, frankly,
12 pressed very hard, and I think members of the Committee would
13 agree, that we should not go about suspending the antitrust
14 laws unless we have demonstrated with great particularity
15 why we need to.

16 I think the discussions of the Committee and Sub-
17 committee make it clear that for the sort of industry involve-
18 ment the Committee intends that Terry Redmond laid out very
19 comprehensively and lucidly, there is not the need to reduce
20 our standard of competition or standard of antitrust protec-
21 tion in the economy.

22 While I agree with the other sections in
23 Mr. Yancey's comments, I don't share those views.
24 Mr. Chairman, I appreciate the opportunity to share these
25 views with the Council.

1 CHAIRMAN MURPHY: Thank you, Mr. Rosapepe.
2 Mr. Rogers, who has been very helpful with the Council
3 affairs, he is here as an observer for Mr. Fitzsimmons.
4 Mr. Rogers?

5 MR. ROGERS: My name is Don Rogers, and I am the
6 alternate for Frank Fitzsimmons, General President of the
7 Teamsters.

8 We have been serving on this Council for six years
9 now, and I believe the reason we were asked to serve on this
10 Council was to present a view particularly to the workings
11 of the Council that you, yourself, may not have.

12 You are within the house, so to speak, and we are
13 an outside group, along with others that have come on the
14 Council in recent years. I would like to make a few points
15 about this report.

16 First, it is a large report. I find myself in
17 agreement with probably 98 percent of the material, and
18 probably the other two percent I would agree if we could
19 just fashion it slightly different.

20 I think the inclusion of the minority report would
21 be the thing to do. Again, I find myself in agreement for
22 a good deal of that.

23 The thing that disturbs me is this: we live in a
24 society today that capsulizes everything that happens. When
25 I look at the volume of work involved here, and the expanse

1 of material that it covers and all of the expertise that it
2 took to put it together, you know and I know that our good
3 friends in the press will reduce it to about 30 seconds of
4 reporting.

5 And, unfortunately, it may not be the most flatter-
6 ing manner in which they will report those 30 seconds. This
7 comes down to maybe the two percent I am concerned about. It
8 has to do with the business of controlling both price and
9 allocation, and defining when the actual emergency is there.

10 I think if industry says, "Leave it to us and leave
11 it to the free market activities as the best way to control",
12 I would probably find myself in agreement with that, with
13 the proviso that there has to be a check and balance in that.

14 Because we are, again, a society of cynics, I don't
15 know where to go, except to the one elected official in this
16 country, and that's the President. I would hope that we
17 would at least suggest that the President be given emergency
18 powers to correct any inefficiencies or anything else that
19 develops in such a situation with the industries controlling
20 a shortage.

21 We make points about Congress acting, etcetera.
22 Congress does not act in an emergency, and it can't act in
23 an emergency, particularly of the grade we are talking about;
24 a certain percent shortfall, ten percent, 20 percent, etcet-
25 era.

1 I think we can say, "The industry can do the job",
2 but the industry has to know that if they don't do it, and
3 don't do it well and don't do it to the satisfaction of the
4 country at large, that there is somebody there who says,
5 "Move over; I'm going to come in and we will control this
6 aspect of it."

7 Rather than the control of a bureaucracy in place
8 to begin with, I would love to see the industry get the
9 whack at handling the problem with the President in the back-
10 ground saying, "Yes, and they will do it or I will step in."

11 I think it will be necessary, because the public
12 is going to perceive the report as the industry saying, "Let
13 us handle it alone." Unfortunately, I think you, those in
14 the industry, you are not the beneficiaries of a best press.

15 I come from an organization that knows that, and
16 I want you to know it.

17 (Laughter)

18 MR. ROGERS: So I don't think it is so much what
19 is as what is perceived, and that is the political reality
20 we live in, what is perceived by that action. Therefore, it
21 seems to me that if this report also has appended to it the
22 minority report, we are just asking the Secretary of Energy
23 to look at both and realize that there was this difference
24 of opinion and set the record straight, that there is no
25 such thing as one unanimous opinion on anything, particularly

1 in the oil industry or the Teamsters, for that matter.

2 Thank you very much.

ph #5

3 CHAIRMAN MURPHY: Thanks, Mr. Rogers. Mr. Yancey,
4 would you rise and read into the record specifically what
5 it is that we are considering as an amendment here?

6 MR. YANCEY: Attached to your packet is a report
7 I sent to Charlie Russell enclosing minority report which I
8 planned to submit in opposition to sections of the National
9 Petroleum Council Report on Emergency Preparedness.

10 I hereby request that the minority report be prin-
11 ted as an addendum to the full Committee report in order
12 that it can be properly considered by the Council.. I request
13 that it be included in the packet which has been done for
14 this meeting.

15 You all have a copy of this, and I would like to
16 have this part of the report and be an addendum.

17 CHAIRMAN MURPHY: You want the whole matter acted
18 on, including your motion for all of that, verbatim, to be
19 included as an amendment?

20 MR. YANCEY: Right.

21 CHAIRMAN MURPHY: It would be a minority report
22 of the Council, not of the Committee. You have that state-
23 ment before you, and the motion, for better or for worse,
24 is that all five pages of it would constitute the amendment.

25 Your second wishes to be recognized.

1 MR. ROSAPEPE: Is my understanding correct that
2 if this motion is adopted, those members of the Council who
3 wish to sign the report and the minority report and associate
4 themselves with it may do so?

5 CHAIRMAN MURPHY: Oh, yes, you can vote for or
6 against adoption of the amendment, and then you can vote for
7 or against adoption of the Council's report, whether or not
8 it has been amended, when it comes up for final action.

9 MR. ROSAPEPE: My point, Mr. Chairman, is that
10 members of the Council can vote for this motion to include
11 Mr. Yancey's minority views as an addendum to the report
12 without necessarily associating themselves with Mr. Yancey's
13 substantive views.

14 CHAIRMAN MURPHY: Yes, you don't have to give your
15 reasons for voting. You can vote for or against. All right,
16 now, it's clear what is before us. And I would now like to
17 recognize any member who wishes to speak in opposition to the
18 amendment.

19 MR. ANDERSON: Question.

20 CHAIRMAN MURPHY: The question has been called.
21 No one else demanding attention. This is a vote on the
22 amendment. There will be a show of hands and a vote, aye,
23 first for the adoption of the Yancey amendment.

24 Those in favor, raise your right hands. And alter-
25 nates are not allowed to vote.

1 (A show of hands)

2 CHAIRMAN MURPHY: Fifteen "ayes". Those who favor
3 rejection of the amendment, raise their right hands.

4 (A show of hands)

5 MR. NICHOLS: I see 37 hands.

6 CHAIRMAN MURPHY: The motion to amend fails, 15
7 to 37. We will now proceed to action on the Committee re-
8 port as submitted. Mr. Rosapepe?

9 MR. ROSAPEPE: Mr. Chairman, as I mentioned, I
10 voted in Committee to report the full report out, and I did
11 so because I believe the report is a tremendous contribution
12 to this nation's consideration of these issues.

13 I would specifically like to call attention to
14 a number of aspects of the report that have not been high-
15 lighted in this exchange over these minority views, because
16 I think the report is so thick that it is useful, I think,
17 to call attention to some of the areas.

18 When we started this study a lot of us had pre-
19 conceptions and a lot of us had views that, frankly, were
20 changed in the course of these deliberations.

21 I had the opportunity, maybe alone among members
22 of the Council, to participate in all the deliberations of
23 the Subcommittee. I would like to briefly share with you a
24 couple of thoughts based on that.

25 Among the questions when we started this study

1 were, To what extent do we need to reduce environmental
2 standards to manage a crisis? To what extent do we need to
3 suspend the antitrust laws?

4 To what extent do we need to suspend conflict of
5 interest and ethics laws passed in recent years? To what
6 extent can conservation contribute to managing a shortage?
7 To what extent can emergency production, how important is
8 inventory management, both to the public and private sectors?

9 While there were a lot of unanswered questions in
10 this area, and items of debate that you have heard exchanged
11 in the last few minutes, do those questions -- I believe this
12 report provides in data, in analysis and in thought by mem-
13 bers of the industry, and a few of us not in the industry,
14 some clear answers.

15 First of all, there is very little advantage to
16 the country in reducing environmental standards during an
17 emergency. The Subcommittee ran the numbers. What can you
18 save through reduction in Clean Air standards?

19 What can you save through more rapid licensing of
20 nuclear power plants? If you look at the demand management
21 section of the report, you will find it's very little. It
22 is an important element of that to be considered as the
23 debate goes forward this year.

24 We discussed that question of the antitrust laws.
25 When we started this I believe there were people who

1 believed that you could not do much without reducing those
2 competitive standards. The Committee looked at it. The
3 structure they recommended is under the Federal Advisory
4 Committee Act, and that is what this group is.

5 It does not require suspension of antitrust stan-
6 dards for all of you ladies and gentlemen to participate in
7 this discussion, and it would not, under the Committee's
8 recommendation.

9 Same things with ethics laws. There are no recom-
10 mendations in this report that would require the conflict
11 of interest provisions of law to be reduced or modified.
12 What the report does show is the tremendous contribution
13 that can be made to managing a shortage through conservation.

14 There has been debate about that, but as
15 Mr. DiCorcia outlined, the Committee's work says that the
16 numbers are in the millions of barrels a day. You can
17 argue either way, but it's not peanuts; it is very signifi-
18 cant.

19 And it is an area we need to concentrate on.
20 Emergency production. A lot of potential there. Inventory
21 management, some disagreement there. How do you make sure
22 the inventories are used on the private sector?

23 The reality is that inventory management in the
24 public and private sector is a key element in this area.
25 And the report shows why and how. It is for that reason,

1 these kinds of real contributions, in my judgment, to this
2 issue that I voted to report the report out of the Commit-
3 tee.

4 Frankly, why I intended today to vote for adoption
5 of the report, as I said earlier. I must say, frankly, as
6 a result of the vote on Mr. Yancey's motion, which I expec-
7 ted, frankly, to pass, because my experience to date with
8 the Council has indicated a willingness to be open to other
9 points of view.

10 But the fact that that was defeated, and, frankly,
11 I don't understand why, but I was surprised and shocked that
12 it was, leads me to feel that to be true to my views in
13 this area and the constituencies that I believe I am on
14 this Council to represent, that I say with some sorrow,
15 Mr. Chairman, it is my intention to vote against adoption
16 of the report.

17 And that should be interpreted as my concern and
18 shock over the fact that the Council was unwilling to allow
19 what I believe are legitimate minority views to be incorpor-
20 ated as a minority report to this document.

21 Thank you, Mr. Chairman.

22 CHAIRMAN MURPHY: Thank you, Mr. Rosapepe.

23 Mr. Rosapepe, a member in good standing, is advocating rejec-
24 tion of the Committee report. I will now recognize any mem-
25 ber who wishes to advocate adoption of the report.

1 Does anyone else wish to be heard? Those who
2 favor the motion adopting the report as submitted by the
3 Committee will please raise your right hand.

4 (A show of hands)

5 CHAIRMAN MURPHY: Those opposed?

6 (A show of hands)

7 CHAIRMAN MURPHY: We have three in opposition, and
8 we didn't take time to count, but it was on the order of 50
9 or more. Are there any absentions? All right, the report
10 is adopted as the report of the National Petroleum Council
11 to be submitted to the Secretary, and I wish to thank the
12 Council for the careful and almost clerical matter in which
13 it has engaged in these deliberations.

14 We will now proceed to our Committee reports.
15 In the glare of the klieg lights shining I lost Bob Anderson.
16 He has been a member of the Council for more years than
17 either of us like to remember.

18 But I will recognize him now to give a report of
19 his nominating committee, and then he will stay at the podium
20 and give the report of the Arctic Resources Committee.
21 Mr. Anderson?

22 REMARKS OF ROBERT O. ANDERSON, REGARDING NOMINATING
23 COMMITTEE AND AS CHAIRMAN, ARCTIC OIL AND GAS
24 RESOURCES COMMITTEE (PROGRESS REPORT)

25 MR. ANDERSON: Gentlemen. Thank you, Charlie,

1 members of the Committee, ladies and gentlemen. The
2 Nominating Committee of the National Petroleum Council met
3 on April 3, 1981 in Denver, and agreed on the following nom-
4 inations for officers and Chairman and members of the Agenda
5 Appointment Committees of the Council.

6 Recommended for NPC Chairman, John F. Bookout,
7 Shell Oil Company; NPC Vice Chairman, Robert Mosbacher,
8 independent oil and gas producer; for the Agenda Committee
9 we nominated the following:

10 Bill Carl, John Carver, Collis Chandler, Eddie Cox,
11 Cliff Garvin, Fred Hartley, John McKinley, Dick O'Shields,
12 John Swearingen, Al Whitehouse and A.V. Jones, with Mr. Jones
13 to serve as Chairman.

14 For the Appointment Committee we nominated the
15 following: Ralph Bailey, Ted Burtis, Jim Emison,
16 Fred Hamilton, Mary Hudson, Tom Kimball, Jeff Montgomery,
17 Boone Pickens, Jim Rosapepe and Bob Yancey, with
18 Harold Hoopman to serve as member and Chairman.

19 Mr. Chairman, this completes the report of the
20 Nominating Committee, and I move that the Council elect
21 the foregoing slate for 1981; thank you.

22 CHAIRMAN MURPHY: Is there a second to the nomin-
23 ation?

24 VOICE: Second.

25 CHAIRMAN MURPHY: Do you wish to vote globally or

1 singly? All right, those who favor the selections let me
2 know by saying "aye".

3 (Chorus of "aye")

4 CHAIRMAN MURPHY: Opposed, "No".

5 (No response)

6 CHAIRMAN MURPHY: Is Mr. Bookout present? Stand
7 up, John.

8 (Applause)

9 CHAIRMAN MURPHY: Stay on your feet and we will
10 recognize your colleague in future affairs here, Mr. Mosbacher.

11 (Applause)

12 CHAIRMAN MURPHY: It is with considerable relief
13 that I see this done.

14 (Laughter)

15 CHAIRMAN MURPHY: But I think the affairs of the
16 Council will be under strong leadership, and I commend your
17 support and cooperation to these gentlemen, just as you
18 have given it so wholeheartedly to me and to my predecessor
19 over these past four years.

20 We will now turn to the report of the Arctic
21 Resources Committee itself.

22 MR. ANDERSON: Thank you, Charlie. Ladies and
23 gentlemen, the Arctic Oil and Gas Resources Committee has
24 been actively pursuing its study since Dr. Howard Slack of
25 our company reported in my absence at the December meeting

1 of the Council.

2 You will recall at that time we described the
3 organizational structure that had been established. He de-
4 fined the function and scope of the Subcommittee and Task
5 Groups, and presented a work schedule and distributed a
6 roster of study participants.

7 Over these last four months good progress has been
8 made in all phases of the study, and it is fully expected
9 that the schedule which provides for this Committee will
10 be reported and reviewed in final report in October of
11 this year.

12 During this period, two additional task groups
13 were created to handle functions that had been originally
14 defined as responsibility of the Coordinating Subcommittee.
15 These new task groups cover jurisdictional issues and econom-
16 ic analysis.

17 You will find their responsibilities defined in the
18 report included in the hand-out you received this morning.
19 You will also find an up-to-date roster of all the study
20 participants, and an updated work schedule.

21 I think if you look these rosters over, you will
22 discover that it comprises one of the largest working groups
23 to ever participate on a Council report, and the broad range
24 of interests almost unusual.

end ph

25 Our seven task groups have each developed

1 considerable information in their particular areas, and I am
2 sure you will be interested in some highlights of their
3 efforts.

4 The jurisdictional issues task group, under the
5 leadership of John Garrett of Gulf has essentially completed
6 its study with the production of maps, defining the outer
7 limits of controversial boundaries. This work is currently
8 being documented with a report in draft form, estimates
9 of the undiscovered oil and gas resources in the Arctic
10 region have been completed by the resource assessment task
11 group with direction from Chairman Bob Schrader of McGarrett
12 and Norton.

13 This test used the geological basis provided by the
14 United States Geological Survey to develop estimates.
15 Seventeen organizations knowledgeable in the U.S. audit
16 have participated in this assessment, and it is gratifying to
17 me to find that the results corroborated those of the United
18 States Geological Survey and emphasized the significance of
19 our audit resources.

20 Documentation of the work of the exploration
21 task group led by Larry Funkhouser of Standard of California
22 is nearly complete. In addition to describing the unique
23 aspects of Arctic exploration technology, this task group has
24 emphasized the constraints to audit the exploration and
25 development that result from leasing policy and regulatory

1 action, and is considering a number of recommendations that
2 will expedite audit development programs.

3 Steve Siebenhausen of Shell chairs the production
4 engineering task force in their study which focuses on the
5 effects of the severe climatic conditions on development and
6 production activities. Particular attention is being given
7 to offshore structures as a means of providing for safe and
8 reliable operations. A draft report of the group's study is
9 currently being developed.

10 The transportation task group led by Frank Wolfe
11 of Exxon has assembled a preliminary draft of their report.
12 Alternates in areas have been detailed for the transportation
13 of oil and gas by pipeline or tanker from potential discovery
14 areas to suitable transfer points or pipeline corridors.

15 Guidelines for environmentally acceptable operations
16 are being developed by the environmental protection task
17 group under the leadership of Bud Scott of Union. In order
18 to assure that full consideration has been given to the
19 concerns of Alaskan residents, a public review of the task
20 force draft report is planned for Anchorage in June.

21 Detailed identification of constraints resulting
22 from procedures, regulations and statutes will be a significant
23 part of this task group's work. Integration of cost factors
24 into an overall economic analysis is being carried out by
25 the economics task group under the direction of David Mantor

1 cf Hamilton Brothers.

2 Cost information developed by other task groups
3 who represented interests in the Arctic area will be processed
4 by computer programs to establish the economic potential of
5 oil and gas development. So far, the task group has defined
6 the methodology and significant factors and it is weighing
7 detailed costs in operating in areas with other task groups.

8 Finally, Dr. Howard Slack, Coordinating Subcommittee
9 has given general direction to task groups and will be
10 consolidating their reports into the final draft. Currently
11 a report drafting team is being established to prepare
12 detailed outlines based on overall outline approved by the
13 Subcommittee.

14 I believe it would be evident from Al Whitehouse's
15 report which follows mine, that our two committees have
16 maintained a close liaison in the audit aspects, and his
17 report will be based to some extent on our study.

18 As I understand his schedule, it looks like we will
19 both be presenting you with reports for consideration at
20 our November meeting.

21 Thank you.

22 CHAIRMAN MURPHY: If there are any questions, we'll
23 be glad to entertain them. This is not an action item, but
24 a progress report.

25 Any questions for Mr. Anderson?

1 Thank you very much, Bob. Obviously, you are
2 well along.

3 Mr. Armand Hammer, the Chairman of the Appointments
4 Committee and I were considering this again, the third of
5 these studies laid on us is the effect of the environmental
6 considerations and regulations on operations. Al Whitehouse,
7 the Chairman of SOhio, we considered just about Exhibit A.
8 It took him all those years to get the pipeline built to
9 cross Alaska and he finally had to give up and never did get
10 one built to move North Slope crude from the West Coast into
11 the refining centers.

12 He said, why me, and we put it to him exactly that
13 way.

14 Al, tell us where you stand.

15 REMARKS OF ALTON W. WHITEHOUSE, JR., CHAIRMAN,
16 COMMITTEE ON ENVIRONMENTAL CONSERVATION

17 MR. WHITEHOUSE:Mr. Chairman, you'll be gratified
18 to know that this report is innocuous and brief.

19 (Laughter.)

20 MR. WHITEHOUSE:As I reported at the last Council
21 meeting, our Committee met last September and agreed upon
22 the scope, organization and timetable for the effort.

23 We established the normal coordinating subcommittee
24 and five task groups, working in the area of air quality,
25 water quality and land use and hazardous waste and synthetic

1 fuel.

2 I am pleased by the progress of the subgroups and
3 I intend to have a meeting of the General Committee on
4 Environmental Conservation in July to review their work to
5 date and to provide direction for completion of the study.

6 In particular, the Committee will be asked to
7 comment on environmental problems that will be most serious
8 in the time frame of 1980, focusing on the impact of
9 conventional industry operations and on the environment --
10 operations on the environment as well as the impact of
11 environmental legislation and regulations on industry
12 operations and petroleum supply development.

13 As Bob indicated, the assessment of environmental
14 impacts on the Arctic is being handled by the environmental
15 protection task group of the Arctic Oil and Gas Resources
16 Committee in the coordination between the environmental
17 conservation subgroups and the environmental protection task
18 group has been excellent.

19 We anticipate quite a successful integration of the
20 appropriate portions of the Arctic study and the environmental
21 study. So, to summarize, the study is on schedule. Final
22 draft reports will be considered by the committee in early
23 fall and transmitted to the Council for its reviews shortly
24 thereafter.

25 CHAIRMAN MURPHY: Thank you, Mr. Whitehouse. Are

1 there questions concerning the status of this report, this
2 study?

3 Members, from the reports we've heard, I think it
4 can be anticipated that a meeting of the Council would be
5 indicated sometime in early December. Of course, the staff
6 will be staying in close touch with the Committee and actual
7 designation of the date would be up to the new Chairman and
8 Secretary Edwards.

9 But in view of the importance of these reports
10 and the nearness of early December to the holidays, I encourage
11 members to keep it as a slack in the early December schedules.

12 We will now have the report of the Finance Committee,
13 Mr. Pickens.

14 STATEMENT OF T. BOONE PICKENS, JR., FINANCE
15 COMMITTEE, AND AS PRESIDENT AND CHAIRMAN OF THE
16 BOARD, MESA PETROLEUM COMPANY

17 MR. PICKENS: Mr. Chairman, Council Members, the
18 Finance Committee met yesterday with Dean McGee as Acting
19 Chairman, to review the financial status of the Council.

20 To briefly summarize, the Committee reviewed the
21 report of the Council's independent outside auditors, Arthur
22 Young and Company, and examined the 1981 budget. The
23 financial condition of the Council is sound, and accounting
24 and control practices received high marks.

25 Last December, it was reported to you that the

1 benefits program for the NPC staff had some weaknesses,
2 especially in the area of a pension plan. The Committee voted
3 to remedy these weaknesses and establish an employee thrift
4 plan.

5 The Committee next reviewed financial requirements
6 for calendar year 1981. At our meeting last December we
7 approved a calendar year '81 operating budget of \$1.8 billion.
8 The Finance Committee still considers that figure appropriate
9 and does not propose any revisions.

10 The Committee also reviewed its December decision
11 to request member contributions in the amount as last year,
12 \$1.65 million. However, with expected interest and publica-
13 tion income in first quarter behind us, the Committee
14 recommends a 10 percent across the board reduction in
15 contribution requests and the Chairman be authorized to make
16 expenditures from a contingency fund if it becomes necessary.

17 Thank you, Mr. Chairman. I move that the report
18 of the Finance Committee be adopted by the Council.

19 CHAIRMAN MURPHY: So seconded.

20 (Applause.)

21 CHAIRMAN MURPHY: This shows that the National
22 Petroleum Council, under the leadership of such a gimlet-eyed
23 committee, can go right along with this Administration.

24 Those who favor adoption of the Finance Committee
25 report, let it be known by saying "aye."

1 (Chorus of ayes.)

2 CHAIRMAN MURPHY: Gentlemen, we go to a sad moment
3 in our proceedings this morning. We have lost a member, who
4 was as distinguished and gentle a person as I have ever
5 known in my life.

6 His fellow Oklahoman, Dean McGee, will read a
7 resolution in memoriam.

8 STATEMENT OF D. A. MC GEE, CHAIRMAN, KERR-MC GEE
9 CORPORATION, IN MEMORY OF J.J. SIMMONS, JR.

10 MR. MC GEE: Mr. Chairman, the members of the
11 National Petroleum Council mark with sorrow the passing on
12 March 24th, 1981, of their distinguished colleague, J. J.
13 Simmons, Jr., at 80 years of age. Born in Saloka, now
14 known as Haskell, Oklahoma, he was graduated in 1919 from the
15 Tuskegee Institute in Tuskegee, Alabama.

16 Mr. Simmons began his lifelong contribution to the
17 petroleum industry that year as a oil lease broker. For 60
18 years as a oil producer and drilling contractor, he consis-
19 tently demonstrated the qualities of judgment, loyalty and
20 integrity.

21 He was an extremely effective petroleum industry
22 statesman. His professional accomplishments were many, and
23 yet he was an unpretentious man. As founder and president
24 of Simmons Royalty Company, he successfully negotiated oil
25 concessions of over 7 billion acres in Kenya, Nigeria and

1 Ghana for a number of American oil companies. In recognition
2 of his expertise, the Chairman of the Interstate Oil Compact
3 Commission appointed Mr. Simmons a member of the Regulatory
4 Practices Committee of the Commission. He was also a member
5 of the Oklahoma Independent Petroleum Association.

6 His civic contributions were equally distinguished.
7 He was appointed by the Governor of Oklahoma to the State
8 Commission on Tourism and Recreation, and served as a member
9 of the Muskogee Chamber of Commerce and as Vice President of
10 the Muskogee Housing Authority.

11 Mr. Simmons was very active in the National
12 Association for the Advancement of Colored People, having been
13 past President of the Oklahoma and Muskogee Chapters. He
14 served on the Board of Trustees of the Ward Chapel Methodist
15 Church in Muskogee, which was a trustee of Charlotte College
16 in Little Rock, Arkansas.

17 He was a dedicated member of the National Petroleum
18 Council, first appointed by the Secretary of Interior in
19 January 1969.

20 In 1978 he was selected by the Council membership
21 to the Appointments Committee, a duty he performed graciously
22 for three years. He was absent for only four Council meetings
23 held during 11 years of his tenure as a member, and will be
24 missed in future Council deliberations.

25 Mr. Simmons was a distinguished member of the

1 petroleum industry, a fine American and a friend to the
2 National Petroleum Council. Therefore, with sincere
3 admiration for his achievements and contributions, and with
4 a sense of great loss, be it resolved that the deepest
5 sympathy of the members of the National Petroleum Council be
6 extended on this 16th day of April, 1981, to the widow and
7 family of J. J. Simmons, Jr.

8 It is further resolved that this resolution be
9 entered upon the permanent records of the Council, and that
10 an appropriate copy thereof be delivered to his family as a
11 remembrance of the Council's esteem and deep appreciation.

12 CHAIRMAN MURPHY: Those who favor adoption of the
13 resolution will please stand.

14 (Participants standing.)

15 CHAIRMAN MURPHY: So ordered.

16 This brings us -- this says that if Members do not
17 have their badges, they have not signed in and you are not
18 in the record. If you want to get paid, check in once again
19 with the ladies.

20 This brings us to the conclusion, and I said early
21 on that the last matter before adjournment would be recogni-
22 tion by any member of the public who is not a member of the
23 Council who wishes to make a brief statement.

24 (No response.)

25 CHAIRMAN MURPHY: There being none, a motion for

1 adjournment is in order.

2 Those who favor adjournement will let it be known
3 by walking out.

4 (Whereupon, at 11:25 a.m., the meeting was
5 adjourned.)

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1
2 REPORTER'S CERTIFICATE
3

4 DOCKET NUMBER:

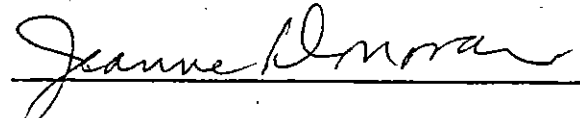
5 CASE TITLE: National Petroleum Council: Eighty-First Meeting

6 HEARING DATE: April 16, 1981

7 LOCATION: Washington, D.C.
8

9 I hereby certify that the proceedings and evidence
10 herein are contained fully and accurately on the tapes and
11 notes reported by me at the hearing in the above case before
12 the U.S. Department of Energy, National Petroleum Council
13 and that this is a true and correct transcript of the same.
14

15
16 Date: April 16, 1981
17

18
19 

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